

## **Lanka Building Materials Corporation Pvt. Ltd - 2022**

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The audit of the operational affairs of the Lanka Building Materials Corporation Pvt. Ltd (“Company”) for the year ended 31 December 2022 was carried out under my direction in pursuance of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Companies Act No.07 of 2007. The financial statements for the years 2019 to 2022, which were to be submitted in terms of Section 150(1) of the Companies Act No. 07 of 2007, had not been submitted even by 25 November 2023. According to the Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, my comments and observations which I consider should be report to Parliament appear in this report.

### **1. Financial Statements**

#### **1.1 Responsibilities of Board of Directors and Those Charged with Governance for the Financial Statement**

Board is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for small and medium scale enterprises and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

#### **1.2 Non Presenting of Financial Statements**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Although the annual financial statements and draft annual report must be submitted to the Auditor General within 60 days of the end of the accounting year as per paragraph 6.6 of the manual included in the Public Enterprise Circular No. 01/2021 dated 16 November 2021, the financial statements for the year 2018 had been submitted by the Ceylon Building Materials Corporation Limited with a late of 4 years and 08 months.</p> <p>The financial statements were not submitted indicating that there was no information required to prepare the accounts due to the computer server used by the company had been disabled due to a virus attack in the year 2019, and due to the fact that the data was not stored in backups at that time. A complaint was made to the Criminal Investigation Department on 28 April 2022, based on the orders of the Committee on Public Enterprises held on 19 April 2022, but the current situation regarding those reports had not been submitted for audit.</p>	<p>The 2018 financial statements were given for audit on 27 October 2023. The financial statements for 2019, 2020, 2021 and 2022 have now been drafted.</p> <p>No report has been received until 04 March 2024 regarding the complaint made by the Criminal Investigation Department regarding the disabled computer system in the year 2019.</p>	<p>Arrangements should be made to submit financial statements as per circular instructions.</p>

## 2. Operating Review

### 2.1 Internal Control

It was observed that the internal control systems introduced for the purchase and sales areas of the company are at a very weak level and the facts revealed during the audit are as follows.

#### 2.1.1 Purchases of Goods

Following observations are made in this regard.

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) According to the draft monthly accounts, the total purchases of asbestos, iron, tiles, cement, sand and other materials in 2022 were Rs.941 million.</p> <p>In these procurement activities, procurement committees had not appointed as per the guidelines of the National Procurement Agency Circular No. 06 dated 25 January 2006.</p>	<p>These total purchases have been made as per the data available in QB in the Finance section. The existing Procurement Committee has been appointed as per the approval of the Board of Directors. Action will be taken as per paragraph 2.7.5 of the Procurement Committee Guidelines for the coming year.</p>	<p>That procurement for the institution should be done in accordance with the Government Procurement Guidelines dated 25 January 2006.</p>
<p>(b) According to 2.8.1(a) of the Procurement Guidelines, Technical Evaluation Committees should have been formed for all procurements under the purview of Departmental Procurement Committees, but no Technical Evaluation Committee had been formed for the company's procurement decisions. According to paragraph 2.8.4 of the guidelines, a technical evaluation committee</p> <p>appointed by the head of the company should give the technical evaluation required for the procurement, but the evaluation of an expert in the subject required for the purchase of the items had not obtained.</p>	<p>Arrangements will be made to appoint a Technical Evaluation Committee in January 2024 as per 2.8.1 (a). Arrangements will be made to appoint a Technical Evaluation Committee in January 2024 as per 2.8.1 (a).</p>	<p>That a technical evaluation committees should be appointed as per Government Procurement Guidelines dated 25 January 2006, when making purchases for the institution.</p>

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| <p>(c) The materials had been procured without any competitive bidding from 16 nominated suppliers on the advice of the project architects, for the procurement of the Prime Minister/Fifth Executive President Official Residence Renovation and Modernization Project, which will be reimbursed by the Prime Minister's Office.</p>   | <p>Efforts will be made to avoid such incidents in the future and to comply with the government's procurement process.</p>            | <p>That the company should follow the Government procurement guidelines dated 25 January 2006 while making purchases.</p>                |
| <p>(d) According to the Public Finance Circular No. 08/2019 dated 17 December 2019, every government entity should have registered as a procurement unit in the National e-Procurement System and acted accordingly, but the company had not acted according to the relevant provisions. Also as per guidelines 9.8 (d) there was no scope for firms to submit bids through e-mail but most of the company's procurements were done through e-mail.</p> | <p>In order to avoid such incidents in the future, actions will be taken in accordance with the government's procurement process.</p> | <p>The company should register in the National e-procurement system for procurement purposes as per the circular instructions.</p>       |
| <p>(e) According to 2.14.1 of Supplement 35 of the Procurement Guidelines Code, although the suitable supplier should have been selected through the open competitive bidding method for purchases above Rs.20 million, 05 cases where suppliers were selected according to the price comparison method for purchases above Rs.20 million had been observed during sample testing.</p>  | <p>In order to avoid such incidents in the future, actions will be taken in accordance with the government's procurement process.</p> | <p>That the supplier should be selected according to the prescribed procurement method as per the government procurement guidelines.</p> |

## 2.1.2 Sales of Goods

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) According to the accounting report prepared by the company for presentation to the board of directors for the year 2022, the sales value of the company was Rs.3,324 million. In this sales value, it was observed that 98 invoices amounting to Rs.557.02 million had been wrongly issued for the Fifth Executive President/Prime Minister's Office Repair and Modernization Project and 22 sales invoices amounting to Rs.79.19 million</p>	<p>I will make sure that such an incident does not happen in the future. A committee will be appointed for this purpose and the management will be informed and action will be taken.</p>	<p>That the wrongly manipulated sales should be properly adjusted in the accounts and that the parties responsible in this regard should be identified and prompt disciplinary action should be taken.</p>

had been wrongly issued to the Urban Development Authority were also included. Among the goods ordered for those sales, information was not submitted that the goods were received and conformed to the specifications regarding the goods that were directly supplied to the relevant work sites.

- (b) It was observed that the company had not followed the procurement process and made the purchases transparently while purchasing goods for sale. As a result of this, the company had to raise the selling prices of the products due to the increase in costs due to the inability to purchase the products at the lowest price. Therefore, it was observed that the sales revenue of the company was deteriorating day by day due to the failure of the company to compete with the prices of similar products in the market.

Agree.

That the company should follow the procurement process to buy the goods at the lowest price and get the maximum profit under competitive selling prices in the competitive market.

## 2.2 Accounts Receivables and Payables

Audit Observation	Management Comment	Recommendation
(a) Confirmations and updated age analysis regarding receivable and payable balances as at 31 December 2022 had not been submitted to the audit. According to the information submitted, the total receivables were Rs.453.60 million and total payables to external parties were Rs.471.98 million as on 30 June 2023.	Balance confirmations were obtained for the year 2018 and are being processed for the years 2019, 2020, 2021 and 2022.	That management should introduce measures to maintain up-to-date information records of receivables and payable balances and to confirm and settle outstanding balances promptly.
(b) As per Cabinet decision අමුණ/07/1625/342/021 dated 27 September 2007, a plot of 100 perches from a land belonging to the Building Materials Corporation located at Sri Sangharaja Mawatha, Colombo 12 was transferred to the Inland Revenue Department and the Company received an advance of Rs.50 million on 22 February 2008.	The Department of Inland Revenue has proposed to offset this payment with a piece of land in our company's Kalutara branch, and in this regard, the Department of Inland Revenue and our management are in discussion.	That according to the Cabinet decision, arrangements should be made to repay the advances received.

Nevertheless, the above Cabinet decision dated 27 September 2022 was canceled by Cabinet Decision No. 12/0446/540/005 dated 07 May 2012 and accordingly the company should have returned the advance received from the Inland Revenue Department. This advance amount was shown under non-current liabilities in the financial statements of the year 2018, which were finally submitted for audit. Although the Inland Revenue Department had requested to return this amount, Action had not been taken to pay this Rs.50 million to the Inland Revenue Department till 31 December 2023.

### 2.3 Long Term and Short Term Loans

#### Audit Observation

- (a) In order to meet the working capital requirements, the company had obtained a short-term loan of 150 million rupees from the People's Bank on 03 occasions during the period from 02 March 2017 to 10 April 2018. According to condition number 07 included in the loan agreement, it should be confirmed that the loan was used for the intended purpose, but it was observed that regardless of the purpose of obtaining this loan, it was spent on other expenses including salary payments, bonus payments, etc., administrative expenses of the company.

However, since the company had failed to settle this loan as scheduled, the total outstanding amount with the loan amount and accrued interest on 31 December 2022 was Rs. 220.37 million and it was observed that the penalty to be paid for that was Rs. 17.12 million.

#### Management Comment

Even now, payments of Rs.500,000 each are being made and accordingly, the interest money related to the loan amount has been removed and a payment plan has

been prepared and sent to us. Arrangements have been made to pay in the future as per the restructuring plan.

#### Recommendation

That the management is responsible for not taking action to settle the debt by utilizing the loan money as per the terms of the loan agreement entered into.

(b) In order to enable the company to overcome financial difficulties and become a strong stakeholder in the construction industry, Bank of Ceylon had been given a loan amount of Rs.500 million to the company on 23 October 2018 with the approval of the Cabinet dated 28 March 2018 and No. අම/18/0504/736/007 on a Treasury guarantee. From that, an amount of Rs. 199.05 million that was due to the Bank of Ceylon was deducted and the remaining amount of Rs. 301.38 million was given to the institution. Of that, 35 percent i.e. Rs.105.98 million was spent on employee salary payments, employee provident/trust fund payments, loan interest payments, bonus payments, settlement of overdrafts, purchases of fixed assets, which were expenses contrary to the purpose of obtaining loans. The company had failed to settle this loan amount of Rs.500 million according to the agreed terms and as of 26 May 2023, the outstanding loan interest was Rs.264.43 million.

Due to the current political and economic instability in the country, all construction activities in the public sector and private sector have stopped, and our company, which was engaged in the business of supplying building materials, has seen a decline in business by about 90 percent. Due to this, a specific plan for the payment of the loan and interest amount cannot be presented in this time frame and it is expected to present a plan for the payment of this loan in the debt restructuring proposal.

That the management should take steps to use the loan money for the purpose of obtaining it.

## 2.4 Procurement Management

Audit Observation	Management Comment	Recommendation
<p>Limited quotations were invited from 05 organizations in the year under review for the purchase of a new computer system due to the inefficiency of the software system being used by the company.</p>	<p>The existing software was purchased in the year 2009 and presently, the purchase of computer software according to the latest technology and according to the organizational methods, was started.</p>	<p>That procurement should be done in accordance with procurement guidelines.</p>
<p>The specifications for this had been prepared by the institute, but, the institute had not prepared and approved a total cost estimate according to section 4.3 of the Government Procurement Guidelines. Also no security has been obtained in the advance payment as per paragraph 5.4.4 of the Guidelines. Also, according to paragraph 8.1, the report of the technical evaluation committee should be examined and the decision of the procurement committee should be notified, but an advance of Rs. 0.982 million was paid on 12 October 2021 with the approval of the General Manager without complying with those clauses.</p>	<p>The Technical Evaluation Committee will be appointed in the future in the right manner and will be implemented according to the correct Government Procurement guidelines.</p>	
<p>Even so, the company had not purchased suitable computer software by the audit date of 26 September 2023 and a lot of errors were observed in the data entry of the company's sales, purchases and bank balances.</p>	<p>The total value of the computer software is Rs.4.91 million. As an advance of 20% (Rs. 982,350) had been given prior to the decision of the Board of Directors, the Board of Directors stopped the purchase process. It has been handed over to the internal auditor to investigate regarding this.</p>	

## 2.5 Non-compliance with Tax Regulations

Audit Observation	Management Comment	Recommendation
<p>(a) A sales revenue of Rs.2,924.73 million had been received Under the company's tile project from September 2021 to 30 June 2023, but the value added tax collected under the Value Added Tax Act No. 14 of 2002 had not been remitted to the Inland Revenue Department of Rs.129.59 million.</p>	<p>Building Materials Corporation is preparing year-end accounts of 2021,2022 and therefore the output social security contribution tax and VAT value related to the tile project cannot be adjusted in the VAT Return, so it could</p>	<p>That the tax collected under the Value Added Tax Act should be immediately remitted to the Inland Revenue Department.</p>

not be remitted to the Inland Revenue Department. There, the share of tax related to the partners was also recovered from them. Because the Building Materials Corporation is liable to pay the final tax to the Inland Revenue Department. Where only the tax share of the partners cannot be remitted separately to the Inland Revenue Department.

(b) According to the letter No. කාන/වරි/නිග ෧෨වීම් 2021 of the Deputy Municipal Treasurer (Revenue) dated 15 June 2023, the arrears of taxes amounting to Rs.23.34 million from the year 2007 to 31 December 2021 had not been settled till 17 August 2023.

At present, the Rates and Taxes are being paid to the Colombo Municipal Council in a proper manner and discussions regarding the payment of Rs. 23 million, which is the previous outstanding Rates and Taxes amount, are being conducted.

That the details of the payable amount of Rates and Taxes should be inquired from the relevant local authorities and arranged to be paid.

(c) According to the property prohibition order sent by the Moratuwa Municipal Council dated 28 October 2022, the arrears Rates and Taxes amount and penalty of Rs.1.49 million for the property numbered 25/2 located on Borupana Maligawa Road from the first quarter of 2020 was not paid until 17 August 2023.

At present, the Rates and Taxes are being paid to the Moratuwa Municipality in a proper manner and the discussions regarding the previous outstanding Rates and Taxes amount of Rs. 1.4 million are being conducted.

That the Rates and Taxes due should be paid within the relevant period.



## 2.6 Non compliances with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations	Non-compliance	Management Comment	Recommendation
(a) Public Enterprises Circular No.PED 01/2021 dated 16 November 2021			
(i) Paragraph 5.1 of the Operations Manual and Paragraph 01(3) of Public Enterprises Circular No. 09/2022 dated 21 December 2022	Dividends or taxes payable to the Consolidated Fund must be paid before bonus or profit-based awards are paid. Also, there is no right to pay bonuses based on profit for organizations that have recorded a loss in the year 2021. However, the company had paid Rs.2.15 million as bonus in the year 2022 when the annual profit had not been confirmed through the audited financial statements.	All bonuses have been submitted to the board of directors through a board paper and approved and paid to the employees.	That the bonuses should be paid in accordance with the circular instructions based on the profit ascertained from the audited financial statements.
(ii) Paragraph 6.7	Annual board of survey had not been conducted and those reports had not submitted for audit.	The board of survey reports related to the years 2017, 2018, 2019 and 2020 had not been submitted for audit, and it is scheduled to be done in the first two weeks of January 2024.	According to the circular instructions, the board of survey should be done on the scheduled date and the reports should be submitted for audit.
(b) Asset Management Circular No. 01/2017 issued by the Treasury Secretary's letter No. MF/CG/02/(Cir) dated 28 June 2017	The company had not submitted information about office equipment and furniture to the Comptroller General's office.	The board of survey related to the year 2023 has been completed and the fixed asset register is also being updated and the disposal of goods is currently being carried out.	That the company should submit information about office equipment and furniture to the office of the Comptroller General as per the circular instructions.

## 2.7 Vehicle Utilization

Audit Observation	Management Comment	Recommendation
(a) The lorry bearing vehicle number 226-3173 had been taken out of service since the year 2014, and is currently decaying and stored in the premises and no steps have been taken to dispose of it in the year 2022.	Not yet disposed of. Arrangements have been made to appoint a special survey panel to identify the vehicles to be disposed of as per section 13.2 of Public Finance Circular No. 01/2020 for disposal and in future a decision will be taken on the lorry bearing 227-3173.	That the company should arrange to repair vehicles that are not in running condition in the company to a condition suitable for driving or dispose of them in accordance with section 13.2 of the Public Finance Circular No. 01/2020.
(b) 05 vehicles costing Rs. 26.29 million had been handed over by the Ministry during the period 2018-2021 for the use of the company, but the ownership of those vehicles had not been transferred. All those vehicles were in an undriveable condition by 17 August 2023 and had not been repaired or returned to the Ministry.	The vehicles handed over to our institution by the Ministry are currently in an undriveable condition, and due to financial difficulties, funds were not allocated for them. But if these vehicles are given to the institute, action will be taken to add to the institute's vehicle pool.	That the management should arrange to hand over to the Ministry.
(c) Cab No. 251 – 9413 was parked in the premises of the institution without being repaired even though Rs. 512,375 had been paid in advance to the client institution on 23 July 2019 for repair. The management had not taken steps to identify the responsible officers and recover the loss.	So far, arrangements have been made to collect the money from the relevant party. Out of Rs.512,375, a sum of Rs.125,000 has been received by the institute.	That the responsible officers should take action to recover the advance paid or to repair if it is in repairable condition.

(d) Five vehicles owned by the company bearing numbers 300-8654, 253-8768, 253-0491, 251-9413 and 226-3173 were not in running condition on the audit date of 8 August 2023.	Repair work has been started on the advice of the management.  Arrangements have been made to appoint a special survey panel to identify the vehicles to be disposed of as per Section 13.2 of the Public Finance Circular No. 01/2020 for disposals.	Should be repaired or disposed of without delay after obtaining a recommendation from the Board of Survey.
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## 2.8 Improper Transactions

Audit Observation	Management Comment	Recommendation
(a) Repair of Official Residency		
(i) According to the Cabinet Decision No. අමස 21/1779/302/002/-1 dated 26 October 2021, Approval had been given to provide necessary building materials, equipment and all supplies for the repair and modernization of the Prime Minister /Fifth Executive President's official residence and to obtain the consultancy services related to civil engineering, architectural and interior design by a public body ie: the Corporation without calling for tenders, and to enter into agreements with the body as necessary. However, the company did not reach an agreement with the Prime Minister's Office that included an estimate including the materials and quantities required and the terms of supply of goods, cash payments, etc.	Regarding the supply of goods for repair and modernization activities, it was decided to supply the goods according to an annual agreement reached in a meeting held at the Temple Tree with the intervention of the then former General Manager, Project Officer of the Prime Minister's Office and a diplomatic officer. There, the project officer and the architect introduced us to 16 suppliers recommended by them to get the goods. We agreed with them to order the goods from those recommended suppliers and get a profit percentage for our company and supply the goods.	Action should be taken according to the decision of the Cabinet and follow the procurement guidelines and contract with the customers.
(ii) And although the consultancy services is not within the company's functions, the company had paid an amount of Rs.10 million to an architect for the consultancy services regarding the civil engineering, architectural and interior designs required for the above repairs and maintenance, without	In accordance with the decisions taken orally as mentioned in sub-number (i) above, we proceeded to obtain the necessary services from the architect on the advice of the former General Manager	Action should be taken to follow procurement guidelines and contract with clients at the outset.

following any procurement process for calling quotations and selection etc. and a sum of Rs. 3.07 million of the relevant invoice value had not been reimbursed by the Prime Minister's Office by 30 July 2023.

and the Project Officer.

In this regard, an invoice of Rs. 13.07 million has been issued to the Prime Minister's Office in relation to the consultancy services. An amount of 10 million rupees has been received for that and only that amount has been paid to the supplier.

(iii) According to the expenditure report submitted by the company for the audit, the value of the materials provided by the company for the repair and maintenance of the official residence as of 13 July 2023 was Rs. 1.158 million and non-building materials supplied by the company such as air conditioners, gas lines, Wi-Fi systems worth Rs. 9.97 also included in this.

I agree. In addition to the goods required for construction work, our company is also currently ordering and delivering many materials. For Example; air conditioners, electrical bulbs, wood, electronics, and many other materials.

It is the responsibility of the company's management to correctly identify their business goals and guide them to the right goals.

(iv) Based on the verbal instructions of the architects selected as above, materials for this project were procured from 16 suppliers nominated by them without following the procurement procedure and purchased on the purchase orders of the Building Materials Corporation. Later, goods were issued to the official residency project and invoiced in the name of the company.

Based on the instructions received from the former General Manager, the Project Officer of the Prime Minister's Office and the Architect, the General Manager instructed us to prepare the company's order forms and invoices based on the quotations of the 16 suppliers recommended by them.

That the payment vouchers as well as all necessary supporting documents must be attached to ensure that the procurement guidelines are followed and that payments are correct.

A large number of vouchers that included expenses reimbursed by the Prime Minister's staff were not submitted for audit and although the Chairman was informed in writing on 07 August 2023, the vouchers were not

submitted for audit till the date of this report.

(v) The amount settled by the Prime Minister's Office was Rs. 559.59 million as at 30 July 2023 and accordingly the amount to be recovered was Rs. 90.23 million.

As per institute's recovery data this figure is correct and action will be taken to recover the amount now.

That all this money should be reimbursed.

<p>(b) The company was running Trincomalee, Kuliapitiya, Kurunegala and Tangalle sales centers in buildings acquired on rent basis and the company had entered into an agreement with the building owners to pay a monthly rent of Rs.35,000 for the Tangalle sales center, a monthly rent of Rs.30,000 each for the Kurunegala and Kuliapitiya sales centers, and a rent of Rs.25,000 for the Trincomalee sales center. Even so, the method used to select these buildings was not observed by the audit during the checking of the files and evidence was not submitted to the audit that all interested parties had been given an opportunity in this selection in a transparent manner and how the rent was assessed. And according to the draft monthly accounts prepared for the year 2022, it was observed that all the above mentioned sales centers are running at a loss as in the year under review.</p>	<p>A monthly rent of Rs.35,000 is paid for the Tangalle sales center, Rs.30,000 for Kurunegala and Kuliapitiya, and Rs.25,000 for Trincomalee.</p> <p>However, although the Board of Directors has approved the completion of transactions in the Tangalle and Kurunegala branches, the Board of Directors has approved the temporary operation of these branches.</p>	<p>Action should be taken to make agreements by the company as to maximize profitability.</p>
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## 2.9 Transactions contrary to the Objectives

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) <b>Tile Project</b></p> <p>In order to reduce the shortage of tiles in the market at a time when import restrictions have been imposed due to the foreign exchange crisis in the country, the permission to import tiles was given only to the company through the Extraordinary</p> <p>Gazette No. 2231/18 dated 11 June 2021. Accordingly, due to the lack of financial strength for the company to carry out import operations, It was agreed to enter into MoUs with the companies that are interested in the sale of those materials, import tiles with their own money under the name of "BMC" and share 1/3 of the profit from the sale to the company and 2/3 to the partner company that is investing money on behalf of the company. From the beginning of the tile project to June 30, 2023, the import value of tiles was Rs.928.88 million and the sales value was Rs.2,924.72 million.</p>		

- (i) Although the tiles were imported under the name “BMC”, the company was not aware of all the orders being placed. Even though the import was contracted to be done through telegraphic transfer, contrary to that, by paying money from their account, the company had worked to release the tile stock worth US\$ 154,928.27 from the port, which the company had imported without any notification and For this purpose, the permission received from the Central Bank of Sri Lanka to dispose of foreign exchange from the island was also not submitted to the audit.
- BMC is acting as trustee and at that time, ART Decoration International Pvt Ltd has imported tile stocks from VARMORA GRANITO PRIVATE LTD with a invoice value of USD 154,928.27 and has now been released from the port.
- That the management of the company should confirm that action will be taken in accordance with the objectives of the gazette.
- It has been informed in writing that the goods value of US\$ 138,898.37 will be released due to the long-term business relationship with the foreign supplier and the payment has not been made through BMC.
- (ii) Whereas the import of ceramic tiles has again been suspended vide Extraordinary Gazette No. 2312/78 dated January 01, 2023 due to shortage of foreign exchange reserves, and despite this, the company had worked for Win Holdings, which imported tiles for a private housing project, and Lenro Impex (pvt) Ltd, which imported tiles for the renovation of the first floor of a private building. Also, 1500 tiles from the stock of tiles imported by the company were allowed to be released on July 06, 2023 without charging any profit or tax to the company with the approval of the General Manager.
- The sale proceeds of 1500 tiles were allowed to be given to them informing that on 16.05.2023, due to the delay of more than one month in clearing the stock of imported tiles from the port, Lenro Impex has faced a financial difficulty due to the increase in late charges and in consideration of the written promise that the Company's share of profits and related taxes as per the agreement may not be given first and that it will be given in the next sale proceeds, and because there is a stock of 5860 tiles left for sale.
- That the conditions of the gazette should be complied with.

(b) **Release of materials from Building Materials Corporation for Model Village Programme**

The building materials needed by the house owners of the Suriya Pokuna Debokkawa housing project implemented by the National Housing Development Authority had been issued by the corporation on loan basis during the period of 7 years from 2015 to 2021. Building materials worth Rs. 34.69 million had been issued without any restrictions from the branch warehouses of Ambalantota, Tangalle, Lunugamwehera, Tissa, Weerakatiya, Embilipitiya, Suriyawewa, belonging to this building materials corporation and this loan balance had not been settled until 30 June 2023.

No order has been received from the National Housing Development Authority for this project. At that time, the management of the institution has given oral instructions to the respective branch managers to go to the housing projects and take the relevant orders from the home owners and issue them on credit basis in the name of the home owner. It has been assigned to the branch manager to collect the money for the goods provided on that credit basis.

So far, 03 officers have been appointed to collect the loan and a sum of Rs.98,000 has been collected according to the warehouse receipt reports as of 31 October 2023.

That the management of the company should take action so that the business objectives of the company can be fulfilled.

## 2.10 Performance

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Building Materials Corporation Ltd. was established in the year 1971 under the Sri Lanka State Trading (General) Corporations Act No. 33 of 1970 was re-registered in 1992 under the Companies Act No. 17 of 1982 and in the year 2010 under the Companies Act No. 07 of 2007 and its vision was "to be the leader in the supply of high quality building materials and equipment in accordance with the standard at a competitive price throughout the island and to build maximum credibility in the Sri Lankan community by fulfilling social responsibilities as a public institution". Even so, at present, it is engaged in selling with a profit margin for the building materials and equipment purchased from the private building material equipment suppliers at the modernized showroom maintained in the main office premises and by the branch offices. Thus, it was observed that the objectives of the establishment of the company and the vision of the company were not covered. Also, during the period of 06 years from 2013 to 2018 when the financial statements were presented, the net loss had grown from Rs.15 million to Rs.167 million.</p>	<p>This situation has arisen due to the creation of an open economy after 1977. However, I would like to inform you that all activities of selling and distributing building and construction materials, machinery, equipment, tools and other accessories manufactured in Sri Lanka throughout Sri Lanka will be performed by the institute. This act is expected to be modified in the future as appropriate to the institution, and is expected to approach the competitive market according to an action plan that suits the current economy.</p>	<p>That it is the responsibility of the management to manage the affairs efficiently and effectively according to the goals and vision of the company.</p>

## 2.11 Identified Losses

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) It was observed that an amount of Rs. 8.48 million has to be paid to the relevant parties out of the amount to be paid by the company based on court orders for 02 cases heard in court against the company as at 29 December 2022.</p>	<p>The 2 pending cases are as follows.</p> <ol style="list-style-type: none"><li>1. MC 6785/17 EPF - An amount of Rs.3.98 million was to be paid, in monthly installments of Rs.50,000, and a further amount of Rs.1.13 million (23 installments) remained to be paid on 29 December 2022.</li><li>2. HC (Civil) 316/2003 (1) – Payments of Rs.100,000 each month were made as per settlement agreement and further Rs.7.36 million (74 installments) were to be paid.</li></ol>	<p>That the management should work to manage the affairs of the company so that the lawsuits against the company are minimized.</p>



(b) A contract was entered into with DMW Ventures (Pvt) Ltd, a Sri Lankan intermediate company of a Pakistani firm selected by inviting quotations from importers without inviting national competitive bids for the supply of 5600 metric tons of cement at 79.50 USD per metric ton in paper bags with the name "BMC" printed on them at 50 kg each. A cash deposit of Rs.05 million had been paid for this purpose on 14 March 2022. However, due to the People's Bank's refusal to open letters of credit in the face of the country's exchange crisis, it was not possible to import cement, and the Rs.05 million that had been paid without prior confirmation could not be recovered.

A letter was sent to DMW Ventures (Pvt) Ltd in relation to Rs.05 million to receive money and accordingly, it is pointed out that the institution has deducted the expenses incurred for the project, but according to the memorandum of understanding, the amount should be given to us. Accordingly, further action is being taken on the advice of the Chief Legal Officer of the Ministry of Housing.

That according to the MoU made, arrangements should be made to collect the money paid.

## 2.12 Assets Management

Audit Observation	Management Comment	Recommendation
<p>(a) According to the Land Acquisition Act No. 28 of 1964, 1.1157 hectares and 3.2 roods of government land had been handed over to the company on 09 September 1974. As per the assigned certificate of the concerned land to the company, although, this land should not be used for any purpose other than the acquired purpose without the proper permission of the concerned Ministry, contrary to that, 03 plots of land with 04 roods 31.40 perches had been sold to HDFC Real Estate Development Limited on 14 November 2005, 24 January 2007 and 14 August 2005 for Rs.222.50 million with the approval of the Board of Directors. Although the Colombo District Court had given a judgment to release the ownership of the land by paying an amount of Rs.359.32 million to the Housing Development Finance Corporation, before 31 January 2012, it was also observed that HDFC Bank has now taken steps to get the clear proof of the land as the company has not paid the money and taken back the ownership of the land.</p>	<p>The possession of the land has been acquired by HDFC Bank on court orders in November 2022.</p>	<p>That the land transferred without proper approval and purpose should not be sold and care should be taken to properly manage the company's assets.</p>
<p>(b) 100 perches of land owned by the company located at No. 541 Sri Sangharaja Mawatha, Colombo 12 was transferred to the Bank of Ceylon through a deed of sale for 70 million rupees on 09 November 1998 and Later, the company had offset Rs.199.05 million from the loan amount of Rs.500 million received from the Bank of Ceylon on 23 October 2018 along with the amount of Rs. 70 million related to the above sales contract, including the outstanding amount of the loan and the interest payable accordingly. Bank of Ceylon should pay the stamp duty of Rs. 5.38 million, which is related to the value of the deed prepared and sent by the bank, after offsetting the above money, and take possession of the land again, but it has not been taken over by 31 July 2023.</p>	<p>Forms 20 and 15 among the documents required for deed writing, which have not been updated since 2015 at the Office of the Registrar of Companies, have been completed by June 2023 and after the notice by the Bank of Ceylon to obtain an opinion poll from the Inland Revenue Department regarding the amount of stamp duty of Rs.5.38 million, the estimated stamp duty was informed as Rs.18.39 million. A request has been made to the provincial revenue department to reduce it.</p>	<p>That the management should take immediate action to take over the ownership of the land by duly paying the relevant stamp duty.</p>

<p>(c) A land with 01 rood 2.8 perches from No. 417/A, Kade weediya, Railway Station Road Matara Land are being used illegally by the National Housing Development Authority and the company has not taken any action in this regard.</p>	<p>Regarding this piece of land, correspondence has been exchanged between the two institutions and the land is currently being taken over.</p>	<p>That the management as public institutions should work together to solve the problem or take legal action.</p>
<p>(d) The proceedings of an Anuradhapura land measuring 03 roods 35.6 perches have been completed, but the illegal occupants have not been removed and the ownership has not been taken over.</p>	<p>This is a land owned by the Anuradhapura Conservation Board. This is occupied by Lanka Building Materials Corporation Pvt Ltd. on a 99-year lease basis.</p>	<p>That the company should take action to obtain title deeds in respect of the property in question and to remove illegal occupants.</p>
<p>(e) Survey plans had not been prepared for 07 lands measuring 4 acres 0.5 roods 9.1 perches located in Anuradhapura, Ambilipitiya, Kandy, Mannar, Batticaloa, Ampara, and Nuwara Eliya.</p>	<p>Necessary arrangements are being made to obtain survey plans for these lands.</p>	<p>That action should be taken to prepare survey plans for land and buildings belonging to the company.</p>
<p>(f) Action had not been taken to transfer deeds for the lands located in Moratuwa, Anuradhapura, Ampara, with an extend of 03 acres, 3.5 roods, 17 perches under the company.</p>	<p>Necessary activities are being carried out to obtain the deeds.</p>	<p>Action should be taken to prepare and register the title deeds with the relevant institutions.</p>
<p>(g) Although the Cabinet decision dated 21 August 2019 of No. අම/19/2192/122/076 has approved the transfer of the right of the land to the company for the transfer of the land No. 549/A, Borupana, Moratuwa, The company had not yet prepared the deed related to the ownership of the land.</p>	<p>Proceedings of deed writing have been assigned to the Moratuwa Divisional Secretariat by letter No. L2/SLO/COL/MRT/006 dated 30.09.2022 signed by the Assistant Commissioner of Lands, Ministry of Lands. Currently, Moratuwa Divisional Secretary has been handed over to the provincial land department for deed writing.</p>	<p>That the company should take action with the related agencies to prepare and register the title deeds.</p>

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| <p>(h) The company owned land of 01 rood and 31.6 perches located in Kunguniyar Uppukulam Karayi Jaffna and 02 houses in Nuwara Eliya</p> <p>Bambarakele and Ambilipitiya Yodhagama have been idled without using since 2017.</p>  | <p>Future activities are being planned to develop and earn a way of income.</p>   | <p>That the existing resources should be used efficiently.</p>   |
| <p>(i) The amount of lease arrears and penalty from the year 1997 to 31 December 2022 for the land at Ambilipitiya extend of 01 Road given by the Mahaweli Authority for a 50-year lease was Rs.1,654,330. The Mahaweli Authority had informed that due to the non-payment of this lease, the lease may be terminated and that the legal action will be taken.</p>   | <p>Agree.</p>   | <p>Arrangements should be made to properly pay the rent including arrears of rent and to earn income from the utilization of the land.</p> |
| <p>(j) Cement Warehouse, Warehouse No. 06 and Sangharaja Warehouse No. 11 had been given on rent during the year under review at prices more than 05 years old without obtaining new valuation reports.</p>  | <p>Arrangements will be made to contract under the new prices in the future.</p>  | <p>That the warehouse should be rented out by assessing the assets and updating the rental amount accordingly.</p>                         |
| <p>(k) Although, Warehouse No. 07 with 1,513 square feet had been given from 01 September 2017 at Rs.55 per square foot for Rs.83,215 monthly, Warehouse No. 05 and 06 with 1,568 square feet had been given from 01 October 2016 at Rs.55 per square foot each for Rs.86,240 monthly and Stores No. 01,02,03,04 with 3,136 square feet had been given for Rs.172,480 per month since 27 May 2015 at Rs.55 per square foot. at Company Premises No. 541 Sri Sangharaja Mawatha for the services of the National Lottery Board, the same warehouses were given for rent in 2020 at the same price as in the years 2015, 2016, 2017 without renewing the contracts. The National Lotteries Board had not paid the electricity bills amount of Rs.60,382 due for these warehouses from July 2018 to January 2021, and the warehouses were returned on 31 December 2021.</p> | <p>Although. No. 01, 02, 03, 04, 05, 06, 07 stores were given to the National Lottery Board, there was no agreement for that and they were only given on verbal approvals. The National Lottery Board of Directors has informed us that the amount of Rs.60,382 that was to be charged to us during the period from 2018 to 2021 is not possible to pay as no agreement has been reached.</p> | <p>That the warehouse should be rented out under a formal agreement after assessing the assets and updating the rent accordingly.</p>      |

(1)	A 1480 sq.ft. warehouse owned by the company in the company premises at No. 541 Sri Sangharaja Mawatha was rented to a businessman for Rs. 66,600 per month at Rs. 45 per sq. ft. from April 2015 The contract period was up to 09 April 2017 and without entering into a new contract, the same rent as per the original contract was given until 31 December 2022.	Due to the lack of a legal officer at that time, the institution has not been able to enter into a new agreement. Currently, the board of directors has approved to enter into a new agreement.	Arrangements should be made to rent the warehouse and collect the arrears according to a new assessment.
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### 2.13 Cash Management

#### Audit Observation

The company maintains 12 bank accounts out of which two are inactive. No cash books had been maintained and no bank reconciliation statements had been prepared indicating opening and closing balances for the year 2022. According to the bank account balance confirmations, the debit balance of 03 bank accounts was Rs.25.78 million and the credit balance of 07 accounts was Rs.303.04 million. Due to this, it was observed that the company has not implemented sufficient control over cash.

#### Management Comment

At present, the cash book is prepared for the year 2021 and accordingly, based on the balance of the bank statement, the amended cash book and bank reconciliation statements are being prepared for the year 2023.

#### Recommendation

That the management should immediately take steps to prepare the cash books and monthly bank reconciliations based on a more accurately calculated opening balance and that it is their responsibility in terms of financial management.

### 3. Human Resource Management

#### Audit Observation

(a) The institution had not taken action in accordance with the following clauses in the manual of the Public Enterprises Circular No. 01/2021 dated 16 November 2021.

(i) The cadre had not been approved by the Department of Management Services as per the paragraph No. 3.3 (i).

(ii) The company did not have a properly approved recruitment process as per the paragraph No. 3.2 (i).

#### Management Comment

Attention has been made to proceed as per the clauses of circular PED/12.

#### Recommendation

Action should be taken as per the circular instructions.

- (b) As per the decision of the Board of Directors held on 27 October 2022, the former General Mmanager of the company was suspended and the commercial department was sealed due to the discovery of letterheads and seals of three suppliers of the company in the office (desk drawer) of two officers working in the commercial department. In this regard, a complaint was submitted on 28 November 2022 with reference number IR/629/06/22 of the Colombo Fraud Investigation Bureau. However, no report has been submitted till now after completion of investigations.
- Not commented.
- Necessary action should be taken by the management immediately.

Also, the Chairman/Board of Directors had been informed in the report dated 27 January 2023 of the internal auditor that the certificates submitted for the interview by the former General Manager on 02 November 2020 were fake. So far no investigation has been conducted and no disciplinary action has been taken.

#### 4. Accountability and Good Governance

##### 4.1 Budgetary Control

###### Audit Observation

An approved annual budget should be submitted according to Section 5.3 of the Guidelines of Public Enterprise Circular No. 01/2021 dated 16 November 2021. but it was not done so.

###### Management Comment

At present, from August onwards, arrangements will be made as per Section 5.1 of Public Enterprise Circular No. PED 12.

###### Recommendation

That the management should prepare an annual budget as per the circular.

##### 4.2 Strategic Plan /Action Plan

###### Audit Observation

In order to fulfill the vision and mission of the company, a strategic plan and corresponding action plan for a period of not less than 03 years should be prepared and approval of the board of directors for the relevant plans should be obtained 15 days before the beginning of each financial year in terms of Sections 5.1 and 5.2 of the Guidelines of the Public Enterprises Circular No.1/2021 dated 16 November 2021,but it had not done so.

###### Management Comment

A strategic plan for the years 2024 to 2026 and a corresponding action plan have been prepared and handed over to the line ministry on 11 October 2023.

###### Recommendation

That the management should prepare a strategic plan and an annual action plan as per the circular instructions.