

Lanka Ceramic Corporation - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Ceramic Corporation “Corporation” for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, 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.

In preparing the financial statements, management is responsible for assessing the Corporation’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non- Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) In preparing the cash flow statement in accordance with Section 20(b) of Sri Lanka Accounting Standard 7, the amount allocated as gratuity during the year Rs.729, 086 should have been adjusted to the cash flow generated from operational activities, but It had led to an overstatement of Rs.13,270,321 due to the adjustment of Rs.13,999,407.	The amounts will be corrected as per the reconciliation of the schedules and the ledger accounts.	Cash flow statement should be prepared according to Accounting Standards.
(b) In accordance with Section 51 of Sri Lanka Accounting Standards 16, due to non-review of the useful lifetime of the items of property, plant and equipment which have been fully depreciated but currently in use assets in the head office and 8 factories belonging to 14 asset classes with total value of Rs.82,855,275 had been stated in the accounts at historical cost and the estimated error about the life time of the asset had not been revised according to Sri Lanka Accounting	The property, plant and equipment revaluation will be calculated and shown in the financial statements, when the corporation's financial condition is good.	The useful life time of the assets should be reviewed and correct carrying value should be stated in the financial statements.

Standard 8 and the correct carrying value was not shown in the financial statements.

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| <p>(c) When revaluing items of property, plant and equipment, the class of property, plant and equipment to which those assets belong should be fully re-valued in accordance with Section 36 of the Sri Lanka Accounting Standard 16. Land re-valuation value of Rs.171,904,375 in three factories and land cost of Rs.371,329 in four factories was taken into account.</p> | <p>According to existing financial situation of the corporation, the revaluation of three factories has been completed and accounted and also the rest of the factories will be done when the financial situation of the corporation is good.</p> | <p>Action should be taken to revalue assets and to account for at fair value.</p> |
| <p>(d) No action had been taken to write off the capital grant of Rs. 1,000,000 received from the line Ministry in accordance with Sri Lanka Accounting Standard 20.</p> | <p>The correct values will be presented according to the accounts and it will be corrected in the year 2023.</p> | <p>Action should be taken to write off in according with the Standards.</p> |

1.5.2 Accounting Deficiencies

Audit Issue	Management Comments	Recommendation
<p>(a) The amount of Rs.1,800,000 had been received from leasing 50 acres of land where the Eragama factory is located and the lease period was from July 1, 2022 to June 30, 2023. Accordingly, although the income for the year under review was Rs.900,000, Rs.1,800,000 had been accounted as other income.</p>	<p>The correct value will be adjusted in the account in the accounting year 2023.</p>	<p>Action should be taken to correctly recognize and account for the income related to the period.</p>
<p>(b) As per the audit calculations, interest receivables from fixed deposit as at 31 December 2022 is Rs.2,957,591, but according to the financial statements it was stated as Rs.3,141,426 and it had been accounted as fixed deposit investments. Therefore, the investment interest receivables were understated of Rs.2,957,591, other income was over stated amounting to Rs.183,835</p>	<p>That mistake will be corrected and the correct values will be accounted in the accounting year 2023.</p>	<p>The relevant calculations should be done correctly and arrangements should be made to indicate the correct values in the financial statements.</p>

and fixed deposit investment was amounting to Rs.3,141,426 were overstated in the financial statements.

- (c) In the cash flow statement under operating activities, although the decrease in trade and other receivables was Rs.1,372,143, it has been overstated by Rs.223,818, as Rs.1,595,961. The increase in trade and other creditors was Rs.191,784, but it has been overstated by Rs.508,995, as Rs.700,739. The paid gratuities were Rs.681,660, but they have been overstated by Rs.43,970, as Rs.725,630. Furthermore, although the fixed deposits and interest accretion during the year under investing activities in the cash flow statement was Rs.8,141,426, the cash flow under investing activities was understated by Rs.4,877,040 because only Rs.3,264,386 was shown as interest reinvestment.
- this will be checked and corrections will be made in the future.
- The cash flow statement should be prepared by entering the correct values.

1.5.3 Unreconciled Control Accounts or Records

Item	Value As Per the Financial Statement (Rs.)	Value As Per the Corresponding Record (Rs.)	Difference (Rs.)	Management Comments	Recommendation
(a) Property, plant & equipment	155,992,714	153,750,018	2,242,696	The fixed assets registers will be checked, and the relevant corrections will be made.	Action should be taken to make relevant corrections and correct values should be shown in the financial statements.
(b) Trade & Other Receivable balance	10,336,101	10,112,282	223,819	That the existing balances in the notes, will be checked and corrections will be made in the future.	-do-

(c)	Advance, Deposit & Pre-payment (Factory Advance)	1,191,973	768,174	423,799	Action will be taken to compare according to the accounts and present the correct values.	-do-
(d)	Trade & Other Payable (Dealer Deposit)	3,569,975	3,069,975	500,000	Action will be taken to compare according to the accounts and present the correct values.	-do-

1.5.4 Documentary Evidences not made available for Audit

Item	Amount (Rs.)	Audit evidence not provided	Management Comments	Recommendation
(a) The value of other deposits to be received was Rs.2,806,875, with a balance of over three years in three factories.	1,278,224	The responsible parties for the balances had not been disclosed.	Arrangements will be made to minimize such errors in the future.	Action should be taken to correctly identify and recover the relevant value
(b) The balance of Rs.52,408,969 is included in the Trade and other Creditor balance and represents the amount owed to two institutions for a period exceeding three years.	32,319,927	Balance Confirmation had not been obtained for balances.	Lanka Ceramic Limited- (Rs.26,226,152.00) was a joint institution with Ceylon Ceramic Corporation, and the Corporation had stated that only the remaining balance is to be paid after deducting the amount to be received to the corporation for the services provided by the corporation. That balance was an old balance existing from since before 1990 and there is no information regarding that balance. The amount of Rs. 6,093,775 to be paid to Ceylon petroleum Corporation is also an old	Action should be taken to settle the credit balances and to identify the unidentified values and correct the accounts.

creditor balance and the relevant information is not available.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation

The value of advances and deposits as of December 31 amounted to Rs.12,308,494, which includes a balance of Rs.500,000 due from the Janatha Estate Development Board since 2012 and a balance of Rs.1,221,666 due from the Inland Revenue Department.

Management Comments

Arrangements will be made to minimize such errors in the future.

Recommendation

Action should be taken to obtain balance confirmations, and arrangements should be made to recover the relevant dues.

1.6.2 Payables

Audit Observation

(a) The amount of Rs.387,275,583, due balance to the Sri Lanka Mineral Sand Company which has been existence since 2012 and the amount of Rs.121,768,339 to be paid for six types of taxes to Inland Revenue Department had not been settled.

(b) An Audit fee of Rs.1,993,009 from 2004 to 2019 had not been settled.

Management Comments

Considering the financial situation of the corporation, that the payments will be settled from the proceeds after leasing out our factories to suitable investors.

Payments will be made in installments in the future when the corporation's financial situation improves.

Recommendation

Action should be taken to settle dues promptly, and arrangements should be made accordingly.

Action should be taken to settle the balance due.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comments	Recommendation
(a) Finance Regulation 770(4) (e) and paragraph 13.2 of Part I of Public Finance Circular No.01/2020 dated 28 August 2020	Although the identified 15 vehicles attached to the factories of the corporation should be disposed and another 8 vehicles were not in running conditions, no action had been taken to dispose these dilapidated vehicles, according to the guideline for the disposal of dilapidated vehicles in government agencies.	The information required for the disposal of vehicles not in running condition has been forwarded to the line Ministry and the Ministry will be followed up with as a response has not yet been received.	Disposal must be carried out, and the work must be completed.
(b) Section 4.2 of the 2006 procurement guide	Estimated expenditure on goods and services, procurement method, procurement commencement date and the closing date were not included in the prepared procurement plan. The detailed procurement plan had not been prepared by the Corporation.	That will be prepared from the year 2023.	Plans should be prepared before the beginning of the relevant year and the relevant approval should be obtained and necessary updates should be made regularly.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 5,778,945 and the corresponding profit in the preceding year amounted to Rs. 5,054,619. Accordingly, an increase of Rs.724,326 was observed in the financial results. The main reason of this growth was the increase in sales income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comments	Recommendation
(a) The action plan 2022 has been prepared by corporation, including activities to achieve the 10 goals such as increasing production, reducing overall cost including production cost, increasing sales volume and market share. But the budgetary provisions for the year were not included in the action plan and also the key performance indicators had not been identified and the progress had not been evaluated.	Action should be taken to improve quantitative disclosures in the accounts.	In formulating the action plan, the plan should be tailored to the goals that can be achieved annually while the indicators should be identified to measure the performance and the progress. And also, the progress should be measured monthly.
(b) The detailed information had not been included in the fixed asset register, regarding the cost amounting to Rs.1,595,537 for vehicles in two factories.	Work will be carried out to verify these assets in accordance with the Board of Survey documents, and adjustments, as well as corrections, will be made in the future.	Fixed asset register should be maintained up to date.

3.2 Operational Inefficiencies

Audit Observation

Actual production in 2022 and 2021 were 1,714,289 units and 1,746,887 units respectively. Accordingly, the production has been decreased by 32,598 units, which was equal to two percent. Although increased production by 5 percent had been mentioned as one of the aims in corporation, but that aim had not been fulfilled.

Management Comments

Although the corporation's aim was to increase production by five percent, the production has been limited due to the increased inventories, because of the recession in the construction industry in 2022.

Recommendation

Action should be taken to fulfill the aims of the corporation.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation

(a) The assets including the lands and buildings located in seven factories, which are not engaged in manufacturing activities have been idle and about Rs.10 million had to be spent annually in terms of production cost and the administrative expenses for running these factories.

Management Comments

A limited number of employees are working on the sales of goods in stock, even though the other factories are not engaged in manufacturing activities except for the Bangadeniya factory. And as the ownership of these factories had not been transferred to the name of the Ceylon Ceramic Corporation yet, they are expected to be leased to suitable investors after receiving the ownership from the Ministry of Land as per current request.

Recommendation

Action should be taken to get the ownership in writing for all lands and to maximize the use of the assets owned by the corporation.

(b) Out of the 325 acres of land owned by the Eragama and Mahiyanganaya factories which are engaged in manufacturing activities, about 50 acres of paddy land had been leased out to an outside party, but the

50 acres of paddy land have been leased, generating income while the other lands of the factory are used for obtaining clay, and forested area land has been prepared for the cultivation of paddy fields. And that a case has been filed

Action should be taken to maximize the use of the property owned by the corporation.

remaining lands except for the factory have not been utilized for effective investment, and also it was observed that about 3.5 acres of paddy land owned by the Eragama factory have already been acquired by a private individual and about 125 families have been living illegally on Mahiyanganaya land before 2015.

by contacting the Attorney General's Department and that case is currently in pending for 3.5 acres of paddy land acquired by outside party.

The illegally acquired land of the Mahiyanganaya factory has been acquired since before 2015. Although legal action has been taken regarding these lands, the corporation is unable to take over the lands because of interference from local political authorities. Therefore, the procedures for taking over those plots of land by the corporation will be prepared after seeking advice from the Attorney General's Department. Therefore, the procedures for the taking over that plots of land to corporation again will be prepared after get the advice from the Attorney General's Department.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation

There was a significant variation between the revenue and expenditure as budgeted in 2022 compared to the actual income and expenditure, ranging from 26 percent to 338 percent. So, the budget has not been used as an effective control factor.

Management Comments

Arrangements will be made to minimize such errors in the future.

Recommendation

The budget should be used as a control factor.