

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the BCC Lanka company Limited (“Company”) for the year ended 31 March 2025 comprising the statement of financial position as at 31 March 2025 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. 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 Company as at 31 March 2025, 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 for Small and Medium-sized Entities 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 Company’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 Company or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

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 Company'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 Company'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 Company to cease to continue as a going concern.
- Evaluate 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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 Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) The Company had not calculated deferred tax assets or deferred tax liabilities as at 31 March 2025 and adjusted in the accounts in accordance with Sri Lanka Accounting Standard (LKAS) 12.	Necessary adjustments will be made in the accounts during the year 2025/2026.	Deferred tax assets or deferred tax liabilities should be calculated and adjusted in the accounts in accordance with LKAS 12.
(b) The residual value and useful life of assets in use should be reviewed annually in accordance with Paragraph 51 of Sri Lanka Accounting Standard (LKAS) 16 and any changes in accounting estimates should be adjusted in the financial statements. However, the Company had not estimated and accounted for the residual value and useful life of six categories of assets with a written down value of Rs. 11,456,522 as at 31 March 2025.	Valuation reports for fixed assets will be obtained and the useful lives of the assets will be reviewed and shown in the financial statements in accordance with Sri Lanka Accounting Standards.	The residual value and useful life of assets in use should be reviewed annually, the value should be estimated and the necessary adjustments should be made in the financial statement in accordance with Paragraph 51 of LKAS 16.
(c) The gross carrying value of assets that are fully	A written request has been submitted through the	The gross carrying value of assets that are fully

depreciated but are still in use with a cost of Rs. 78,882,933 had not been disclosed in the financial statements in accordance with Paragraph 79(b) of Sri Lanka Accounting Standard (LKAS) 16.	Ministry of Industries to the Department of Valuation to revalue the fully depreciated property plant and equipment.	depreciated but still in use should be disclosed in the financial statements in accordance with Paragraph 79(b) of LKAS 16.
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1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
A 6-acre plot of land owned to the Company with a book value of Rs. 3,840,056,229 had been transferred to the Ministry of Justice in 2019 as per a decision of the Cabinet. A balance of Rs. 7,207,564,490 had been recorded as compensation receivable after deducting a balance of Rs. 21,608,510 payable by the Company to the Ministry of Justice in respect of another transaction from the compensation assessment amounting to Rs. 7,229,173,000 made by the Colombo District Chief Assessor on 04 November 2022 and the asset disposal gain of Rs. 3,389,116,771 had been recorded as revaluation reserve in the year 2024 instead of being credited to retained earnings. Since this error pointed out in the audit of the previous year was not corrected, the revaluation reserve had been overstated by Rs. 3,389,116,771 and the retained earnings had been understated in the financial statements in the year under review further by the same amount. Furthermore, the Company had not received the assessed compensation amount even as at 31 March 2026 and although a risk of not receiving the said amount was observed, the	In the discussion held on 03 October 2025 under the chairmanship of the Director General of the Department of Public Enterprises, it was decided to pay the compensation amount due for the land amounting to Rs. 7,229,173,000 and the minutes of the discussion had been duly sent. A written request has been made again by the Secretary to the Ministry of Industries to obtain a written confirmation from the Department of Public Enterprises that the compensation amount will be paid. Action will be taken to correct the changes in respect of the compensation amount to be recorded in the financial statements in the next accounting year.	The accounting errors pointed out by the audit in the previous year should be corrected and the necessary disclosures should be made in the financial statements.

necessary disclosures in the financial statements had not been made in this regard.

1.5.3 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
A contract had been entered into with a private Company from 04 January 2024 to act as a coordinating agent for the distribution of the products of the Company islandwide without the approval of the Board of Directors and outside the procurement procedure. A sum of Rs. 3,195,539 had been paid to the relevant company as sales commission for the period from 01 April 2024 to 30 September 2024.	Sales revenue of Rs. 90 million has been able to generate in the last 10 months with the coordination of this institution. However, this agreement has been terminated on 30 December 2024.	Approval from the Board of Directors should be obtained when entering into service contracts and the procurement procedure should be followed.

1.6 Accounts payable and Receivable

1.6.1 Accounts Receivable

Audit Observation	Management Comment	Recommendation
The trade receivable balance of Rs. 1,814,276 remained for more than a year had not been collected.	Action is being taken to recover the outstanding balances of Rs. 1,814,276 which have been outstanding for more than a year.	Accounts receivable balances should be recovered without a delay.

1.6.2 Accounts payable

Audit Observation	Management Comment	Recommendation
Payable balance of Rs. 3,976,442, which was over 10 years had not been settled.	The approval of the Audit and Management Committee and the Board of Directors of the institution was received to write-off the amount of Rs. 397,442 due and the Director of	Accounts payable balances should be settled without a delay.

the Department of Public Enterprises had been informed in writing through the Secretary to the Ministry to obtain recommendations in this regard.

1.6.3 Going Concern of the Organization

Audit Observation	Management Comment	Recommendation
The Company had purchased unrefined coconut oil during the year ended 31 March 2025 at a cost of Rs. 539,148,850 and out of which Rs. 513,854,320 representing 95 percent of the total purchases had been made from a single supplier. Accordingly, there was a risk related to the survival of the operations of the Company due to the heavy reliance on a single supplier for the raw materials required to produce refined coconut oil which is its main product.	Although there are approximately 12 suppliers in Sri Lanka who produce coconut oil with the required quality standards, the majority of them are coconut oil exporters and only a very limited number supply coconut oil to the domestic market. However, the Company currently purchases coconut oil from two suppliers.	Excessive reliance on a single supplier for raw materials should be avoided.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Operations Manual for state owned Enterprises introduced by Public Enterprises Circular No. 01/2021 dated 16 November 2021.			

Section 3.2		The Scheme of Recruitment of the Company had not been approved by the Department of Management Services even as at 31 March 2025.	The Scheme of Recruitment for this institution has not yet been approved by the Department of Management Services.	The Scheme of Recruitment should be approved by the Department of Management Services.
Section 3.2	(a)	Requests for payment of salary structures and allowances should be submitted for the approval of the Director General of the Department of Management Services with the approval of the Board of Directors and the recommendations of the line Ministry. However, a transport allowance of Rs. 801,000 for 03 senior level officers who do not avail group transport facilities, an attendance allowance of Rs. 4,071,375 for 48 employees and a risk allowance of Rs. 108,000 for 03 employees had been paid during the year under review without such approval.	This payment has been made to provide the transport facility in a more economical manner in accordance with the circular instructions issued regarding public transport to minimize fuel, driver overtime and vehicle maintenance costs and to provide these officers with the opportunity to come to the institution through the external office transport facility service as well as due to the problems such as having to dispose the vehicles owned to the institution, insufficient drivers, residing in different areas when providing group transport facilities, changes in duty hours etc.	Requests for salary structures and allowances should be submitted for approval of the Director General of the Department of Management Services with the approval of the Board of Directors and the recommendations of the line ministry.
	(b)	04 employees who were in the PL-1 service category had been promoted to the PL-2 and PL-3	A draft prepared requesting to rescind the Cabinet decision for restructuring of the	Approval from the Board of Directors and the Management Services Department should be obtained in

	service categories without the approval of the Board of Directors and the Management Services Department and a total of Rs. 965,340 had been paid as basic salary from July 2024 to March 2025.	Company has been forwarded to the Ministry of Industries for submission to the Cabinet. Actions will be taken to obtain the necessary approvals regarding the staff, recruitment procedures and remuneration payments after obtaining the said approval.	case of promoting to service categories.
Section 6.6	Although the financial statements for the year under review Should be submitted for audit on 31 May 2025, they were submitted for audit on 31 December 2025 after a delay of 07 months, and a draft of the annual report had not been submitted with it.	The financial statements could not be approved in a timely manner due to issues regarding the appointment of the Board of Directors of the institution and were approved at the meeting of Board of Directors held on 17 December 2025.	Management should submit the draft financial statements and annual report for audit within 60 days of the end of the accounting year.

2. Financial Review

2.1 Financial result

The operating result of the year under review amounted to a profit of Rs. 103,333,611 and the corresponding profit in the preceding year amounted to Rs.155,729,211. Therefore an deterioration amounting to Rs. 52,395,600 of the financial result was observed. The main reasons for the deterioration were increase of refinery income by Rs. 143,601,272 and decrease in distribution income by Rs. 9,912,117 against the decrease in soap sales and financial income by Rs.66,361,779 and Rs.15,391,051 respectively and increase in cost of sales by Rs. 116,303,013.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although an unauthorized occupant had been residing in a house in Dias Place, Gunasinghepura since 1998 for which monthly rent had been paid since 1988 in accordance with an agreement entered into between the National Housing Development Authority and the Company, steps had not been taken to evict the said occupant and take possession of the house.	The Company has to initiate a legal action and since it will be a lengthy process, the payment of rent has been suspended for the time being. Actions will be taken to resolve this issue in consultation with the National Housing Development Authority.	Action should be taken in consultation with the Housing Development Authority to evict the unauthorized occupant.
(b) The Company had leased 28 building premises to external parties for use as warehouses and offices and a sample examination of 20 of these premises revealed that market valuations had not been obtained for the said premises after year 2017 and the lease agreements had not been revised accordingly.	The rental was increased up to Rs. 80 per square foot for warehouse space and Rs. 100 per square foot for office facilities with effect from April 2025 and the rates were revised again up to Rs. 100 per square foot for warehouse space and Rs. 120 per square foot for office facilities with effect from September 2025. The Ministry of Industries has made a written request to the Department of Valuation for a fresh valuation on 2 February 2026.	Market valuations should be obtained for premises provided on a rental basis and actions should be taken to revise rental agreements.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
Although the Company manufactured and sold 9 products including coconut oil,	The production departments need to be modernized for the process of obtaining standard	Sri Lanka Standards Certificate should be

it had not obtained the Sri Lanka Standards Certificate for any product except coconut oil. certificates and the necessary work is being carried out. Officials of the Sri Lanka Standards Institution have visited the factory and conducted initial inspections. obtained for all products.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
The Company had requested the Board of Investment of Sri Lanka to transfer the legal ownership of a land located in the Wathupitiwela Export Processing Zone which had been granted to the Company through a Cabinet approval in the year 2012 and the soap manufacturing plant which was located in the head office of the Company had been established on this land in the year 2012. However, the Board had informed the Company to pay US\$5,130 per year for 1 acre as lease premium and ground rent for the transfer of the land and to pay US\$567 per month for 1 acre until the legal proceedings related to the transfer of the land were completed. The Company was unable to make the relevant payment due to the deteriorating financial condition of the Company and the soap and other detergent manufacturing factory established on the land remained idle even as at 31 March 2025, the date of the audit.	Proper attention was not paid to this matter at the ministry level due to the fact that it was limited only to day-to-day operations as the institution was taken over in the past by the Ministry of Finance as an institution identified for restructuring and after this institution was placed back under the Ministry of Industries the newly appointed board of directors has passed resolutions to settle the relevant takeovers.	The assets of the Company should be used efficiently to generate income.