BCC Lanka Limited – 2018/2019

1.1 Qualified Opinion

The audit of the financial statements of the BCC Lanka Limited ("the Company") for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 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 tabled in Parliament appear in this report. In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Companyas at 31 March 2019, 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 based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 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 intends 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 Sub-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 Institution.

1.4 Scope of Audit (Auditor’s Responsibilities for the Audit of the Financial Statements)

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 skepticism 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 internalcontrol.

- 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’sability 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 Institute 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 Institution*;*

- 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 Financial Statements

1.5.1 Non-compliances with Sri Lanka Accounting Standards

	Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
a)	In terms of Section 79 of the Sri Lanka Accounting Standard, 40, assets generating revenue should separately be shown as investment assets in the financial statements. However, it had not been done so.	It is not possible to show separately as the buildings leased out were as old as 75 years.	Investment assets should be separately shown in the financial statements in terms of provisions of the Accounting Standard.
b)	In case of assets further in use after being fully depreciated, the useful life thereof should be reviewed in terms of Section 51 of the Sri Lanka Accounting Standard, 16. However, vehicles worth Rs. 10,750,259, buildings worth Rs. 1,924,916, equipment & instruments worth Rs. 1,124,278, furniture & fittings worth Rs. 4,898,097, office equipment worth Rs. 2,249,318, and machines & machinery worth Rs. 10,401,106 had been made use of without being reviewed in that manner.	Although a revaluation committee had been appointed by the Ministry, it had not become functional. As such, the revaluation shall be done in the year 2020.	Action should be taken in terms of the provisions set out in the Standard in order to review the useful life of assets thereby making adjustments in the accounts.
c)	When benefits are not expected in the future through the use of an asset, such an	Eliminated within 03 years following the decision of	The necessary adjustments should be

asset should be fully eliminated in terms of Section 67 of the Sri Lanka Accounting Standard, 16. However, it had been decided that the sum of Rs. 2,887,488 comprising Rs. 2,234,227 incurred on the installation of machines that had not been made use of, and the sum of Rs. 653,261 spent on palm oil project which had not been implemented, be amortized within 03 years instead of being written off during the year. In addition to that, the retention money amounting to Rs. 197,000 relating to the installation of the said machines, had not been included in the asset.	the Board of Directors, and the balance shall be eliminated in the year 2020.	made to the accounts of the assets in accordance with the provisions of the Accounting Standard.

1.5.2 Transactions without Authority

Description on the Transactions without Authority	Comment of the Management	Recommendation
Contrary to the conditions set out in the Public Enterprises Circular, No. PED/1, dated 2018.09.18, the Chairman of the Company had obtained a Jeep at a monthly rental of Rs. 235,000 thus spending a sum of Rs. 2,115,000 thereon during the year under review. Approval of the Treasury had not been obtained in that connection. According to Section 6.1 of the said Circular, officers with assigned vehicles should not use any other pool vehicles. Nevertheless, the Chairman of the Company had used the said rented vehicle along with a vehicle assigned to him by the Company. As for the vehicle belonging to the Company, sums of Rs. 464,550 and Rs. 1,112,936 had been spent on fuel, and repair & services expenses respectively during the year under review.	As the vehicle of the Chairman had been under repairs, a vehicle had been obtained on rent on the discretion of the Chairman.	Provisions of the Circular should be followed.

1.5.3 Lack of Documentary Evidence for Audit

Item Confirmation of Creditors	Amount Rs.	Audit Evidence not Made Available	Comment of the Management	Recommendation
Creditors	12,976,524	Confirmation of Balances	It is mentioned in the financial statements that payments remain due for the creditors, and payments shall be made once compensation is received from the Treasury.	Action should be taken in due course in order to provide the confirmation of balances for the Audit.

1.6 Accounts Receivable and Payable

1.6.1 Monies Payable

	Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
a)	An interest totalling Rs. 88,041,205 remained payable by the year under review on the loans of Rs. 58,265,037 obtained from the Coconut Development Authority in the years 1985, 2002, & 2004, and Rs. 10,000,000 obtained from the Kalubovitiyana Tea Factory Ltd in the year 2003. Annual allocations of Rs. 6,747,520 had been made from the annual profit as interest payable on the said loans. Of the interest payable to the Coconut Development Authority, a sum of Rs. 86,147,529 had been written off following a Cabinet approval. However, even after the lapse of many years since the date of obtaining the said loan, action had not been taken to settle the balance of the loan and	Not commented.	Action should be taken to settle the loan and the interest thereon.

	the interest thereon totalling Rs. 156,306,243 as at 31 March 2019.		
b)	A loan balance of Rs. 4,508,696 payable to the Janatha Estate Development Board had existed though, such a balance had not existed in accordance with the accounts of the Janatha Estate Development Board. As such, action had not been taken to settle that balance.	Action will be taken to write off after obtaining approval of the Board of Directors.	Action should be taken to settle the balances.
c)	Action had not been taken to settle the payable balances of assessment tax, defence tax, goods & services tax, and VAT, totalling Rs. 58,111,396 continued to exist over 13 years.	Taxes shall be paid once the compensation is received from the Treasury.	Action should be taken to settle the unsettled balances continuing to exist over long durations.

1.6.2 Advances

Audit Observation	Comment of the Management	Recommendation
Of the purchase advance balance amounting to Rs. 1,931,215 as at the end of the year under review, a sum of Rs. 1,420,404 continued to exist over 10 years. Action had not been taken to determine how that balance had arisen thereby failing to settle.	Not commented.	Action should be taken to settle the unsettled balances continuing to exist over long durations.

1.7 Non-compliances with Laws, Rules, Regulations, and Management Decisions

	Reference to Laws, Rules, and Regulations, etc.	Non compliance	Comment of the Management	Recommendation
a)	Democratic Socialist Republic of Sri Lanka.			

(i)	Financial Regulation 104	A vehicle belonging to the Company had been repaired spending a sum of Rs. 577,526. However, only a sum of Rs. 300,700 had been received from the insurer thus failing to take action as per Regulations with respect to the loss of Rs. 276,826.	An amount had to be spent additionally on the repairs.	Action should be taken on the losses in accordance with the Financial Regulations.
(ii)	Financial Regulation 110	A Register on Losses and Damages had not been maintained.	Not Commented.	A Register on Losses and Damages should be maintained.
(iii)	Financial Regulation 1646	The monthly summaries that should be presented by the officers in charge of the vehicles prior to the 15th day of the ensuing month, had not been made available.	Not commented.	The management must ensure that the officers in charge of the vehicles present the monthly summaries.
b)	Public Administration Circular, No. 30/2016, dated 29 December 2016.	A test on the fuel consumption of the vehicles had not been conducted.	Not commented.	Instructions of the Circular should be followed.
c)	Public Finance Circular, No. 3/2015, dated 14 July 2015, and Financial Regulation 371 (6).	Funds given as an imprest for a certain financial year, should not be made use of for the payments of another financial year. However, cash in hand of the Company amounting to Rs. 214,000 had been brought forward	Not commented.	The cash in hand should be settled without being brought forward to the ensuing year of finance.

		to the ensuing year of finance.		
d)	Section 4.2.2 of the Public Enterprises Circular, No. PED 12, dated 02 June 2003.	A meeting of the Board of Directors should be held in each month. However, only 04 meetings had been held by the Board of Directors for the year 2018/2019.	Meetings could not be held due to lack of quorum.	Action should be taken to conduct meetings in each month

1.8 Non-compliances with Tax Regulations

	Audit Observation	Comment of the Management	Recommendation
	Inland Revenue Act, No. 24 of 2014.		
(i)	No deductions on outlays or expenses for enjoyment should be made when calculating the income tax in terms of Section 10(1) (b) (vii). However, the expenses totalling Rs. 1,063,478 spent on enjoyment had been taken into account when computing the assessable loss.	As the expenses on marketing and general entertainment had not been included in the entertainment expenses, such expenses had been taken into consideration when calculating the tax.	When income tax is calculated, no deductions should be made on the expenses for enjoyment.
(ii)	According to Sections 86 (3) (4) (a) & (b), when the lessees have not deducted the withholding tax from the lease rent relating to the trade stalls given on lease by the Company, the Company should deduct the withholding tax on the lease rent and remit to the Department of Inland Revenue within 15 days after the end of each month. However, of the lease rent amounting to Rs. 62,622,477, the	Action will be taken in the year 2020 to deduct the withholding tax.	Action should be taken in terms of the Withholding Tax Act to remit the tax to the Department of Inland Revenue.

lessees had deducted the withholding tax only on an amount of Rs. 9,138,634.
The Company had not taken action to remit the withholding tax on the balance amount of Rs. 53,488,838 to the Department of Inland Revenue.

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2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a profit of Rs. 18,484,388 as compared with the corresponding profit of Rs. 1,856,372 for the preceding year, thus observing an improvement of Rs. 16,628,016 in the financial result. This improvement had mainly been attributed by the decrease in the purchasing price of coconut oil and the increase in the sales income.

2.2 Analysis on the Trends of Main Items of Income and Expenditure

	2018/2019	2017/2018	Rate of Variation %
Purchase of coconut oil	115,983,063	134,866,175	(14)
Sale of coconut oil	157,200,096	141,801,086	11
Administrative expenses	67,694,695	55,227,838	23
Employee salaries	31,166,107	24,860,246	25

The decrease in the prices of coconut oil purchased from the suppliers for sale after being refined by 14 per cent as compared with the preceding year, had attributed to the growth in sales income by 11 per cent. Furthermore, the increase in employee salaries by 25 per cent had attributed to the increase in administrative expenses by 23 per cent.

2.3 Ratio Analysis

	2018/2019	2017/2018
Current ratio of assets	1:2.2.7	1:1.9
Gross profit ratio	36 %	27 %
Net profit ratio	7 %	0.6 %

The growth in the current ratio by 0.37 per cent could be attributable to the increase in short term investments and bank balance by Rs. 18 million and 15 million respectively. The gross profit ratio was 36 per cent, and the increase by 9 per cent as compared with the preceding year was attributable to the increase in sales income. However, the increase in administrative expenses mainly attributed to the net profit being 7 per cent.

3. Operating Review

3.1 Transactions not Supported by Adequate Authority

Audit Observation	Comment of the Management	Recommendation
Agents had been appointed to the districts of Kandy and Colombo for the sales promotions of the Company. However, agreements had been entered into with a Manpower Company without approval of the Board of Directors to obtain employees for promoting sales on the basis of monthly salaries by deviating from the general procedure of recruiting agents. Those employees had been deployed to distribute handbills in Kandy district. Without verifying the evidence confirming the information on the contribution of those employees in promoting the business, a sum of Rs. 5,019,768 had been paid to the said Manpower Company during the year under review.	Employees had been recruited through the Manpower Company at the discretion of the Chairman.	Amendments to the procedures for the recruitment of employees for sales promotion should be made only on the approval of the Board of Directors.

3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Management	Recommendation
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Approval had been granted through the Cabinet Papers, No. අමප/ 15/1874/702/010, dated 2015.12.17, අමප/ 16/0597/731/009-1, dated 2016.04.20, and අමප/ 2016/1277/724/052, dated 2016.06.21 in order to give 06 acres to construct the court complex of Colombo, 04 acres	Not commented.	Action should be taken to improve the revenue.

to rehabilitate the Remand Prison for facilitating the shifting of Prison Headquarters, and 02 acres, 03 roods and 8.77 perches to the Urban Development Authority on a commercial matter out of the land in extent of 12 acres, 03 roods and 8.77 perches belonging to the BCC Lanka Limited. However, activities relating to the transfer of land and paying compensation were not completed in accordance with the procedure of acquiring the Government lands. Nevertheless, warehouses with a floor area of 125,254 square feet do exist on this land the value of which had been assessed to be Rs. 8,195 million in the year 2013, and no income whatsoever had been earned during the year under review from 07 warehouses with a floor area of 17,635 square feet.

Furthermore, 03 oil tanks worth Rs. 21,074,765 lye idle on this land. The main activity being performed on this land is the refining process of coconut oil only, and the income of the year under review amounted to Rs. 157.2 million. As such, action had not been taken to gain benefits from the properties of higher value as mentioned above.

3.3 Procurement Management

	Audit Observation	Comment of the Management	Recommendation
(a)	Contrary to Guideline 4.2.3 of the Procurement Guidelines 2006, Procurement Plan had not been prepared separating the goods, works and services as per the specified format. Method of procurement, limits of authority, and source of finance had not been mentioned. Constant update had not been made as per Guideline 4.2.1 (e). The Procurement Plan should be made based on the annual budget, but the estimated values shown in the budget had not tallied with the values mentioned in the Procurement Plan whilst	The Procurement Plan had been prepared based solely on the production, trade and sales. Although the procurement worth Rs. 27 million had been included in the budget, that procurement had not been included in the Procurement Plan as it had not been approved by the Treasury. The fixed assets worth Rs. 2,191,413 could not be included in the Procurement Plan.	A Procurement Plan should be prepared by including all the procurements in accordance with the Procurement Guidelines 2006.

	procurements worth Rs. 27 million had not been included in the Procurement Plan. Furthermore, fixed assets worth Rs. 2,191,413 purchased during the year had not been shown in the Procurement Plan.		
(b)	During the year under review, coconut oil had been purchased in 18 instances spending a sum of Rs. 115,983,063. Purchases had been made from the same supplier in 16 instances. Accordingly, out of the 245 metric tons ordered in the year, 215 metric tons equivalent to 87 per cent had been purchased from the same supplier. Although purchases had been made at the lowest price based on the quotations provided by the supplier, the Company had not drawn their attention on the daily market prices. As such, due to purchases made from the same supplier, the Company could not gain the maximum economic benefits expected through the procurement method.	As many suppliers are not capable of supplying oil in accordance with the specifications of the Company, they do not avail themselves to supply oil.	Action should be taken to gain maximum economic benefits expected from the procurement method.

3.4 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
When the Company was restructured in the year 2006, employees were placed in respective salary scales and salaries were paid in accordance with the Management Services Circular, dated 22 September 2006. However, the relevant Scheme of Recruitment has not been approved so far by the Department of Management Services. Nevertheless, a sum	Action will be taken in due course to obtain approval for the Scheme of Recruitment.	Action should be taken to prepare the Scheme of Recruitment thereby obtaining the approval of the Department of Management Services.

totaling Rs. 13,423,413 had been paid as employee salaries to 25 officers for the year under review.

3.5 Management of the Fleet of Vehicles

Audit Observation	Comment of the Management	Recommendation
Repair and service expenses amounting to Rs. 1,112,935, and Rs. 653,733 had been incurred during the year under review on two vehicles one of which the net value amounted to Rs. 2,057,755 whilst the other vehicle had a zero net value.	Not commented.	It is necessary to ensure that maximum productivity is gained from the vehicles.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comment of the Management	Recommendation
The financial statements of the Company had been presented on 2019.11.01 after a delay of 05 months.	Delay in granting approval of the Board of Directors.	The financial statements should be presented on time.

4.2 Annual Action Plan

Audit Observation	Comment of the Management	Recommendation
The Action Plan for the year 2018/2019 had been prepared by the Company based on 03 trust areas identified. However, the Key Performance Indicators (KPI) on the activities of earning lease rent representing 24 per cent of the total income of the Company, and the expected targets had not been included therein. To increase the income from the coconut oil and soap - a main product, by 5 per cent had been shown as activities though, the activities to be performed by the Company in that connection had not been identified. Income amounting to Rs. 201.8 million and 46.1 million had been expected from coconut oil and soap respectively, but Rs. 157.2 million and 36.6 million only had respectively been earned. Despite being expected to provide training on skills for 35 officers, only 03 officers had been trained spending a sum of Rs. 21,000. The estimates on the expected income and expenditure shown in the Action Plan had been different to the annual budget estimates. Accordingly, the Action Plan had not been prepared by taking into account the annual budget whilst the Company failing to fulfill the objectives mentioned in the Action Plan.	The lease rent income is a permanent income, and hence, that was not shown in the Plan. Action will be taken in due course to improve the sales. Although plans were made to develop human skills, action could not be taken in that connection.	The Action Plan should be prepared based on the annual budget. Action should be taken in the manner that the expected objectives could be fulfilled.

4.3 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
As there were considerable variations between the budgeted income and expenditure, and the capital expenditure, the budget had not been made use of as an effective instrument. Particulars are as follows.	The actual income was less than the one expected whereas the actual expenditure was higher than the one expected. The actual sales were less than the expected sales.	The budged should be made use of as an effective instrument of financial control.

Income	Actual	Budgeted	Variation
	Rs. Mil	Rs. Mil	Rs. Mil
Oil income	157.2	217.2	60
Soap	36.6	51.3	14.7
Interest income	9.4	-	9.4
Expenditure			
Administrative expenses	67.7	57.8	9.9
Financial expenses	6.8	0.2	6.6
Capital expenses	2.1	27.0	24.9