

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Ceramic Corporation for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 the Financial 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 Lanka Ceramic Corporation as at 31 December 2021, 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.

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 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.
- Obtained 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 internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded 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 Institute'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. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluated the 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 it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statement

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with reference to the relevant standard	Comments of the Management	Recommendation
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(a)	When revaluing items of property, plant and equipment, the class of property, plant and equipment to which those assets belong should fully re-valued in accordance with Section 36 of 16 of the Sri Lanka Accounting Standards. Land revaluation value of Rs. 165,582,500 in two factories and land cost of Rs. 6,693,204 in 5 factories was taken into account.	That necessary adjustments will be made using the cost basis in the future .	The class of property, plant and equipment to which the assets belong should be fully re-valued at the revaluation.
(b)	According to Section 34 of Article 16 of the Sri Lanka Accounting Standards, the property, plant and equipment should be re-valued on changes of their	This paragraph does not apply to ours, which maintains accounts	Action should be taken to revalue the assets and to account for at the fair value.

	value, but the completely depreciated cost of the property, plant and equipment at Rs. 31,385,876 was not stated in the financial statements at a fair value	on an asset cost basis.	
(c)	The land value of Rs.172,066,316 of Acres 85 Rood 10 Perches 499 perches belonging to 5 factories were mentioned in the financial statements but the corporation did not have the legal ownership of them.	Noted to make disclosures in the accounts Quantitatively.	Action should be taken to take over the legal right.
(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 Standards 20.	That the adjustments will be made to the account in accordance with the relevant accounting standards.	Action should be taken to write off in according with the standard.
(e)	According to Section 32 of Section 8 of the Sri Lanka Accounting Standards, Rs.4,952,640 out of Rs. 11,707,931 trade debtors were outstanding balances for many years and adequate provision had not been made for the doubtful debtors. The corporation had not introduced a policy for provision of doubtful debtors. However, the notes outstanding under Financial Statements 2 state that the net balance after deducting the doubtful debt is stated.	That proper action be taken in the coming years to maintain the accounting policy.	Introduce an accounting policy and make relevant allocations in the financial statements

1.5.3 Accounting deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Although the actual production cost for all the products of the Corporation should be calculated by a production account based on the weight of each product and due to the Corporation adopting a temporary cost methodology without taking into	The cost have been calculated based on the weight of each of the different types of goods being manufactured and	The closing stock of the relevant year should be valued on the production cost of that year.

account the direct and indirect production cost of Rs. 44,114,201 in the year under review, a reasonable confirmation could not be made for the closing stock of Rs. 30,916,975.

it has become difficult to calculate the direct and indirect costs as the goods produced in previous years are also in stock.

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| (b) | Depreciation was calculated at a rate of 10 per cent for buildings valued at Rs. 7,700,000 as at 31 December 2021. However, according to Note 2 of the Financial Statements, the depreciation rate was 3.5 per cent, which overstated the depreciation expenditure by Rs.500,500. | Arrangements will be made to adjust the correct value in the accounts during the coming financial year. | Calculations must be made to the correct ratios |
| (c) | An employee of the corporation retired on 20 December 2021, but his gratuity was paid on 05 January 2022. However, the gratuity of Rs. 743,970 due on 31 December 2021 has been deducted from the gratuity provision for the year 2021. | That this will be corrected in the year 2022. | Only payments made during the year should be deducted from the provision. |
| (d) | The factory maintenance costs of Rs. 1,186,298 for 5 factories, the labour wages of Rs. 3,701,845 for the Mahiyanganaya factory and the excavator rent of Rs. 80,700 should be stated as production cost but accounted as institutional administration expenses. As a result, production costs had been understated. | Arrangements will be made to minimize such classification errors in the future. | Expenditure on factory products should be accounted for under production costs |
| (e) | The capital expenditure of Rs. 1,280,000 incurred on the Eragama factory for the purchase of two rolls of Chinachhatti should be accounted for as assets under machinery, but the profit for the year had been understated that amount due to accounting under normal stocks. | Action will be taken to adjust the accounts as scheduled after comparing the stock reports as on 31 December 2021. | Expenditure in the form of capital should be capitalized during the year. |

1.5.4 Unreconciled Control Accounts or Records

Subject	Value in terms of financial statements Rs.	Value according to corresponding records Rs.	Difference Rs.	Comments of the management	Recommendation
(a) Normal stock balance	7,747,534	9,228,936	1,481,402	That action will be taken in the future to make adjustment notes in comparison with inventory records and accounts.	It is appropriate to act according to the answer,.
(b) Property plant and equipment	17,432,567	18,577,173	1,144,606	That action will be made to compare according to the accounts and present the correct values.	It is appropriate to act according to the answer,.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

	Audit Observation	Comments of the Management	Recommendation
(a)	The amount of Rs. 387,275,583 due to the Sri Lanka Mineral Sands Company, which has been in existence since 2012, has not been settled up to now.	That settlement will be made according to old accounts and books.	Action should be taken to pay the dues.
(b)	No action had been taken to settle the income tax balance due from the Inland Revenue Department amounting to Rs. 1,221,660.	Action will be taken working with the department to update the value.	Action should be taken in accordance with the answer

(c)	The balance of Rs. 5,000,000 due from the Janatha Estate Development Board had not been verified its accuracy and settled.	That it has been proposed for the Attorney General's advice in the future.	Action should be taken to obtain balance confirmations and charge money.
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1.6.2 Payable Accounts

	Audit Observation	Comments of the Management	Recommendation
(a)	An audit fee of Rs. 1,993,009 from 2004 to 2019 had not been settled.	That settlements are being made.	Action should be taken to settle the balance due.
(b)	The balance of Rs. 40,216,217 due could not be verified and settled the balance and had not been obtained balance confirmation for these balances.	That the account will be settled using old accounts and books.	Action should be taken to repay the loan balances and to identify the unidentified values and correct the accounts.
(ආ)	The Corporation had not taken action to negotiate with the Inland Revenue Department regarding the balance of Rs. 121,768,339 to be paid for six types of taxes.	That work will be done to update the value in conjunction with the Department.	Action should be taken according to answer.

1.7 Non-compliance with Laws, Rules, Regulations and management decisions etc.

	References to Non-compliance laws, rules, regulations, etc.	Comments of the Management	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 17 vehicles attached to the Corporation's factories had been taken out of service before 2012, no action had been taken by government agencies to dispose of the dilapidated vehicles in accordance	Information required for disposal has been forwarded to the Ministry. Disposals must be made and the work completed.

		with the Disposal Guidelines.		
(b)	Paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016	Vehicles must be checked the fuel consumption at the first occasion of after a period of 12 months or after a range of 25,000 km, or after major repairs to the engine, but such fuel test had not been checked and had not been calculated the fuel consumption by the corporation.	That the calculations are currently being made.	The circular must be followed.
(c)	Section 4.2 of the 2006 Procurement Guide	Estimated Expenditure on Goods and Services, Procurement Scheme, Procurement Commencement and Closing Date, Detailed Officers should prepare a detailed procurement plan and obtain the approval of the Ministry and the Corporation had not been prepared and obtained approval for a detailed procurement plan	That it will be done properly from the year 2022.	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.
(d)	Financial Regulation 756 and Public Finance Circular No. 01/2020, paragraph II dated 28 August 2020	Although annual asset verification should be conducted and the verification report submitted to the Auditor General, the Corporation had conducted an annual stock verification but had not conducted an asset verification.	That the necessary steps have been taken to conduct an asset verification.	An annual asset verification is mandatory.

1.8 Cash Management

Audit Observation	Comments of the Management	Recommendation
According to F.R. 135, the Accounting Officer should delegate powers in accordance with the organizational structure of the Corporation in respect of its functions in general or in respect of each transaction. Accordingly, the delegation of powers had taken place on 29 July 2020, but no re-delegation of powers had taken place with an amendment till 07 January 2022. The deed of delegation did not include any control over the financial control of the factories owned by the Corporation.	That the delegation has already been done by now and that the delegation will be corrected in the future regarding the financial control of the factories.	Financial Regulations must be followed.

2. Financial Review

2.1 Financial results

Operational result for the year under review was a surplus of Rs. 5,054,619 and the corresponding surplus of the preceding year was Rs. 1,606,181. Accordingly, an increase of Rs. 3,448,438 was observed in the financial result. The main reason for this growth is the decrease in cost of sales by Rs. 9,953,949 in 2021 compared to 2020.

3. Operational review

3.1 Management inefficiencies

Audit Observation	Comments of the Management	Recommendation
The action plan has been prepared in the year 2020 by an outsider for 6 years from 2020 to 2025. Based on that plan, the plan should have been prepared according to the goals that can be achieved annually, but it has not been acted upon. The budgetary provision for the year was not included in the action plan prepared by the Corporation. Also, the key performance indicators for measuring performance were not identified. Under each of the objectives, the targets for 6 years or the percentages have been applied for the year 2021.	That the correction will be done in the future.	In formulating an action plan, the plan should be tailored to the goals that can be achieved each year and actions should be done to achieve the objectives.

Although an action plan has been prepared under 10 objectives, the Corporation has not taken any action to achieve 7 of these objectives.

3.2 Operational inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Due to the inability to take over the ownership of 07 out of 09 factory lands owned by the Corporation, the Cabinet decision approved in 2010 regarding the leasing of factories could not be implemented and a large sum of money had to be spent annually to maintain 6 factories where no production took place. Had. These 6 factories had to spend around Rs. 8 million annually on production costs and administrative expenses.</p>	<p>Only the Mahiyangana and Eragama factory lands have been gazetted to the Corporation and requests have been made from the year 2012 to take over the land ownership of the factories owned by this corporation through the line ministry which has been owned by this corporation. and Several discussions have been held for this purpose. However, the ownership of the land in those factories has not been transferred yet.</p>	<p>Action should be taken to take ownership in writing for all lands.</p>
<p>(b) The approval has been received for resumption of operations of Oddusudan Factory under the control of the Corporation by the Cabinet Decision No. AMP / 20/0989/224 / 002-1 dated 09 July 2020. Although Rs. 3,275,129 was incurred in the year 2020 and Rs. 1,013,685 in the year 2021 for repairs and other expenses, the factory had not been able to commence production by January 2022.</p>	<p>The activities have been halted in May 2021 due to the Covid epidemic and steps have been taken to resume production thereafter.</p>	<p>Action should be done to start production of The Oddusudan factory immediately.</p>

3.3 Idle or underutilized property, plant and equipment

Audit Observation	Comments of the Management	Recommendation
<p>Out of the 231 acres of land owned by the Eragama factory which is engaged in manufacturing activities, about 50 acres of paddy land has been leased out to an outsider but the remaining lands except for the factory land and the brick cutting area have not been utilized for effective investment. About 3½ acres of paddy land has already been acquired by a private individual. About 125 families have been living illegally on the 94-acre of Mahiyanganaya land since before 2015, but the rest of the land, except the factory area, had not been used for productive investment.</p>	<p>About 231 acres of Eragama factory land and 50 acres of paddy lands have been given on lease to an outsider except the land where the factory was located And that a case is pending in the Akkaraipattu District Court under L 168 for 3½ acres of paddy land. Other vacant lands are used to obtain clay and part of it is used for brick cutting.</p>	<p>Action should be taken to make maximum use of the property owned by the Corporation.</p>

3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>In the year 2021, Rs. 1,561,937 was spent on repairing the roof of the Eragama factory and A sum of Rs. 1,280,000 had been spent to purchase two rolls of Chinachhatti for the factory. The procurement procedure was not followed for these two procurements. This amount was paid based on invoices submitted by private companies. The supplier selected methodology, the approved estimate, the recommendation of the Technical Evaluation Committee and the approval of the Procurement Committee had not been obtained for this. Also, it was not reported that the relevant work has been done properly. Accordingly, there was no</p>	<p>Establishment of the procurement process and the mechanisms required for the delegation of financial authority in accordance with Financial Regulations 135 in accordance with the relevant official standards are currently being established and that the Board of Directors had approved the proposal, clarifying the details to ensure transparency in the proposed expenditure.</p>	<p>The procurement methodology should be followed.</p>

transparency in the evaluation and none of the procurement clauses in the 2006 Procurement Guidelines has not been followed.

4. Accountability and good governance

4.1 Budget control

Audit Observation	Comments of the Management	Recommendation
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<p>According to the 2021 budget, there was a quantitative variation between revenue, expenditure and actual income, expenditure from 36 percent to 322 percent, so the budget has not been used as a control factor.</p>	<p>That the instructions have been given to use the budget as a management tool</p>	<p>The budget should be used as a control factor.</p>