

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the B.C.C. Lanka Limited for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 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 2023, 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 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 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 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 Accounting Deficiencies

Audit Observation	Management Comments	Recommendation
<p>By transferring a plot of 6 acres owned by the Company for the construction of Colombo Court Complex in the year 2019 to the Ministry of Justice by the Cabinet Decisions No. 15/1874/702/010-VII dated 17 December 2015 and No. 16/0597/731/009-I dated 20 April 2016, this land had been assessed at Rs. 7,229 million in the year 2022 . Even though a sum of Rs.7,207 million had been recorded as receivable in the financial statements by deducting Rs.21 million of rates paid by the Ministry, the unrealized gain generated from disposal of that asset amounted to Rs. 3,389 million had been accounted for as a revaluation gain in the financial statements.</p>	<p>Actions will be taken to be corrected in the accounting year 2023/2024 .</p>	<p>Actions should be taken to make necessary adjustments.</p>

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Management Comments	Recommendation
<p>The Company had not been able so far to recover the balances included in trade and other receivables totalled to Rs.1,119,956 and Rs.7,157,381 remaining for more than 12 years and for more than 05 years respectively.</p>	<p>Advices have been received from the Department of Public Enterprises to be written off some balances with the approval of the Audit and Management Committee and the Board of Directors. Arrangements will be made to recover the other balances in the future.</p>	<p>Actions should be taken to recover the balances or debit as instructed.</p>

## 1.6.2 Payables

Audit Observation	Management Comments	Recommendation
(a) A loan amount of Rs.10,000,000 had been obtained from Kalubowitiyana Tea Company in the year 2003 and even though the loan amount of Rs.10,000,000 borrowed from the Company had been settled in June 2022, the interest payable amounting to Rs.51,574,327 had not been settled. Further, actions had not been taken even by the end of the year under review to settle the amount of Rs.58,265,037 and interest of Rs.61,177,037 received from the Coconut Development Authority in the years 1985, 2002 and 2004 .	<p>Instructions have been received in the discussion held with the Coconut Development Authority and Kalubowitiana Tea Company, to pay the loan amount borrowed from the Coconut Development Authority to the General Treasury and it was decided to write off the interest of Rs.61,177,036.60 related to that.</p> <p>Likewise, since the interest of Rs.51,118,341.40 payable to Kalubowitiyana Tea Company is very high, the Department of Public Enterprises of the Treasury has informed that the amount will be written off in the future.</p>	Actions should be taken to get settled the balances.
(b) Actions had not been taken to settle the balances of rates payable, security taxes, goods and services levies, VAT and creditor balances remaining for more than 11 years totalled to Rs.40,479,328 .	Instructions have been given by the Department of Public Enterprises of the Treasury to make arrangements to cancel the fixed deposits invested by B.C.C. Lanka when they mature and make the relevant payments .	Actions should be taken to settle the debts.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comments	Recommendation
Paragraph 6.6 of the Operations Manual for State Owned Enterprises of Public Enterprises Circular No. 01/2021 dated 16 November 2021	(i) Although the financial statements related to the year under review should be submitted to the Auditor General within sixty (60) days after the end of the accounting year, the Company had submitted its financial statements for the year under review on 20 October 2023, that is, after a delay of 4 months and 20 days.	Due to not being able to complete the financial statements on time and the Company has to be taken over by the Ministry of Finance due to the Company was included in the restructuring list.	Actions should be taken in terms of the Circular.

(ii) A copy of the Draft Annual Report was not submitted for audit until 25 October 2023.

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review was a profit of Rs. 149,169,835 and the corresponding profit of the preceding year was Rs. 124,752,053. Accordingly, an improvement of Rs.24,417,782 was observed in the financial result for the year under review as compared to the preceding year. Although the cost of sales had increased by Rs.63,459,173, the increase in total income by Rs.82,643,648 and the decrease in total expenses by Rs.5,822,505 had mainly attributed for this improvement.

## 3. Operational Review

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) Twenty six stock items at the Head Office of the Company and Wathupitiwala premises totalled to Rs. 867,253 and 862,967 respectively had not been used for several years and the Company had not yet taken necessary measures so far to remove them from the stock.	It is will be intended to invite tenders for bottles, boxes, labels belonging to oil production and sell. Similarly, it has been decided to sell those which are used in the production of tar barrels, in the future.  Actions will be taken to dispose the stock in Wathupitiwala in the year 2023/2024 .	Actions should be taken to dispose unusable stock.
(b) The Management had not made arrangements to review the useful lives of property, plant and equipment which were fully depreciated but still being used cost at Rs. 48.9 million.	Out of these assets, a large amount of unused machinery has now been removed and actions will be taken to revalue all the remaining assets that are fully depreciated but currently being used in the accounting year 2023/2024	Actions should be taken to review the useful life of the asset to make necessary adjustments in the accounts.

### 3.2 Operational Inefficiencies

#### Audit Observation

There were 29 warehouses of 110,010 square feet and 4 oil tanks with a capacity of 3600 metric tons in the premises of the Company and Wathupitiwala. A square foot of these stores had been rented out for Rs. 35 Rs. 70.

#### Management Comments

There is a crisis in running businesses due to the bad economic situation in the country and although the Company had planned to repair all these warehouses under modern facilities, instructions were received not to do such things at a huge capital expenditure after taking over the Ministry of Finance.

#### Recommendation

Actions should be taken to improve the income.

### 3.3 Idle or Underutilized Property, Plant and Equipment

#### Audit Observation

- (a) Even though the Soap manufacturing plant remained at B.C.C Head Office had been moved to Investment Board premises with an area of 03 acres at Wathupitiwala in 2012 and installed, it had remained unused and idle from the date of its installation up to 31 October 2023.

#### Management Comments

The soap making machine installed at Wathupitiwala Factory of B.C.C is currently in use. Nevertheless, although the soap noodle production machine has been installed, its works has not been properly completed. B.C.C is expected to make the necessary arrangements in the future when it is installed there.

#### Recommendation

Actions should be taken to take an appropriate action for unusable machines.

- (b) The company had owned 15 vehicles and 4 out of that, (including Land Vehicles and Fork Lifts had parked in the vehicle yard without being run for between 2 and 4 years.

Since these vehicles have been taken out of running, arrangements have been made to dispose it with the approval of the Board of Directors in the future.

Actions should be taken to dispose of unusable vehicles.

### 3.4 Human Resources Management

#### Audit Observation

Even though salaries had been fixed in each salary scale as per this circular and paid during the restructuring of the Company in the year 2006 as per Department of Management Services Circular No. 30 dated 22 September 2006, the relevant Scheme of Recruitment had

#### Management Comments

Requests have been submitted by the Management of the Company from the Department of Management Services on several occasions to get approved the cadre and Scheme of Recruitment for the B.C.C Company with the recommendations of the Ministry.

#### Recommendation

Actions should be taken to prepare the Scheme of Recruitment and get approval from Management Services Department.

not been get approved from the Department of Management Services so far. Forty two permanent officers, 6 officers on contract basis were employed as at 31 March 2023 and a sum of Rs.8,518,702 had also been paid for it in the year under review by assigning 20 to 30 officers to the duties of the Company through the manpower supply.

#### **4. Accountability and Good Governance**

##### **4.1 Annual Action Plan**

###### **Audit Observation**

The Action Plan for the year 2022/ 2023 had been prepared by paying more attention on buying and bottling coconut oil from outside and increasing rental income by the Company. Five tasks had been included in this and the performance of 4 tasks out of this was 0 per cent. Further, even though production of Pure Coconut Oil was included as one activity during the year purchasing of only white coconut oil and bottling had been done. Further, the income of coconut oil in the year under review was Rs.760,387,431 and it was 85 per cent of the budgeted sales revenue. Although the expected coconut oil sales amount of the Company's was 1279 MT, only 770 MT could be achieved.

###### **Management Comments**

The investment activities were not carried out due to a circular was issued by the General Treasury to stop new investment activities because of the economic crisis in the country, exchange shortage, fuel shortage and electricity crisis etc.. Human Resource Development Programmes could not be implemented because of many employees working from home and came to work only for a few days. Import of copra has been stopped due to shortage of foreign exchange.

###### **Recommendation**

Actions should be taken to complete tasks as planned.