

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the BCC Lanka Limited (“Company”) for the year ended 31 March 2024 comprising the statement of financial position as at 31 March 2024 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 material accounting policy information, 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 2024, 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 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 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 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**

<b>Non- Compliance with the Reference to Particular Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
According to Sri Lanka Accounting Standard No. 12, the Company had not been calculated or accounted for deferred tax assets or liabilities as of 31 March 2024.	Actions will be taken to rectify this in the 2024/2025 financial year.	The deferred tax should be calculated and adjusted to accounts according to the standard.

### **1.5.2. Accounting Policies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Although it was stated that land and buildings are revalued every 5 years according to the company's accounting policy number 3.1.5, the actions had not been carried out in accordance with that accounting policy.	It was unable to implement the aforementioned accounting policy, and it is expected to be corrected in the future.	Steps should be taken to revalue assets according to the accounting policy.

### 1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>A land transferred to the Ministry of Justice had an outstanding balance of Rs. 7,207,564,490 to be received in 2022 and an unrealized gain of Rs. 3,389,116,771 generated from the disposal of that asset had been recorded as a revaluation gain in the financial statements for the year of 2022/2023. However, due to the uncertainty of receiving the amount by 31 March 2024, the entire value of Rs. 7,207,564,490 was adjusted to the revaluation reserve when removing the value from the financial statements for the year under review, resulting in the revaluation reserve being understated by Rs. 3,818,447,719 and retained earnings had been overstated by the same amount.</p>	<p>Although the compensation amount of Rs. 7,207,564,490, which is to be received for the 6 acres of land provided for the construction of the court complex, was shown as compensation receivable in the 2022/23 financial statements, the Department of Public Enterprises has stated that it will not be received in the 2023/24 financial year. Therefore, the adjustment made during the removal from the financial statements will be corrected in the subsequent financial year.</p>	<p>The adjustments should be properly made in the financial statements.</p>

### 1.5.4 Documentary Evidence not made available for Audit

Item Available	Amount Rs.	Non-provided Audit Evidence	Comments of the Management	Recommendation
The financial asset invested by the company in Ceylon Hotel Corporation	240,000	Evidence to confirm ownership of the financial asset	Due to the misplacement of the original share certificates related to the ownership of shares in the Hotel Corporation, a written request has been made to the secretary of the Hotel Corporation to provide a copy of the share certificates.	Evidence should be presented for audit purposes to confirm ownership of financial assets.

## 1.6 Receivables and Payables Accounts

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Audit Observation	Comments of the Management	Recommendation
An amount of Rs. 7,345,094, which has been outstanding for more than a year, had not been collected, and an amount of Rs. 3,013,359, which had been outstanding for over 10 years, had not been settled.	Discussions are ongoing with the relevant institutions to collect the outstanding amounts. An amount of Rs. 3,013,359, which is payable to the supplier company Tuffline, has not yet been settled.	The receivables and payables should be promptly settled.

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

Reference to Non- compliance Laws, Rules, Regulations, etc.	Reference to Laws, Rules, Regulations, etc.	Recommendation
(a) Operational Manual for Public Enterprises introduced by the Public Enterprise Circular No. 01/2021 dated 16 November 2021		

(i) 3.2 Section	<p>The scheme of recruitment of the Company had not been approved by the Management Services Department up to the year under review. As of 31 March 2024, there were 40 permanent officers and 10 officers on a contract basis employed, and 40 officers were recruited from a manpower institution, and a total of Rs. 57,448,854 had been paid as salaries and wages during the year under review.</p>	<p>Requests have been submitted to the Management Services Department on several times to approve the carder and the scheme of recruitment for the institution. It is expected to take necessary actions according to the policy decisions taken regarding the institution.</p>	<p>Actions should be taken to have the scheme of recruitment approved in accordance with the circular provisions.</p>
(ii) 3.11 Section	<p>A Distribution Coordination Agent covering the entire country for the Company had been selected apart from the procurement process for a period of 5 years, with effect from 04 January 2024.</p>	<p>Although advertisements and various methods were used to inform about the need for distribution agents, due to the low number of applicants, distribution agents were engaged through a private institution and since the sales/distribution of BCC products showed a satisfactory impact, an opportunity was given to that institution.</p>	<p>Actions should be taken to select Distribution Coordination Officers in accordance with procurement guidelines.</p>
(iii) 6.6 Section	<p>The financial statements for the year under review were submitted for audit on 15 October 2024, with a delay of 4 months and 15 days, and a draft of the annual report had not been submitted for the audit until 31 December 2024.</p>	<p>The preparation and submission of financial statements for 2023/2024 to the Auditor General were delayed due to the accounts of the Company being prepared manually and the frequent changes in the Board of Directors of the organization.</p>	<p>Accounts should be submitted before the due date according to the circular provisions.</p>

## **2. Financial review**

### **2.1 Financial results.**

The operating result of the year under review amounted to a profit of Rs. 155,729,211, and the corresponding profit in the preceding year amounted to Rs. 149,169,834. Therefore, an improvement amounting to Rs. 6,559,377 of the financial result was observed. Despite an increase in administrative and distribution expenses by Rs. 38,474,266 during the year under review, the increase in soap sales revenue by Rs. 82,354,591 and the decrease in refinery revenue by Rs. 73,339,369 resulted in a net increase in sales revenue by Rs. 9,015,222. and a decrease in the cost of sales by Rs. 23,334,704 were the main reasons contributing to this improvement.

## **3. Operational Review**

### **3.1 Identified Losses**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Due to the unexpected drop of soap prices in the market, the Company had been incurred a loss of Rs. 1,525,346 by selling 57,700 soap bars, which could not be sold, at a price lower than the marked price.	During the COVID-19 period, due to the sudden increase in soap prices, the Company received higher revenue than expected from the produced stock. However, when prices dropped, the expected revenue decreased.	Demand should be accurately forecasted, and production should be planned accordingly.

### **3.2 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) According to the agreement between the National Housing Development Authority and the Company, a house in the Dias place of Gunasinghapura had been transferred to the Company in 1988. The Company had been paying a monthly rent of Rs. 160 to the National Housing Development Authority until 31 July 2024. Although an unauthorized occupant had been living in this house since 1998, actions had not been taken to remove the occupant and take possession of the house.	Since there was a legal case regarding the house in Gunasinghapura belonging to the BCC institution, a rent of Rs. 160 had been paid to confirm its ownership. However, as the legal case had been indefinitely postponed, the payment of this rent had been stopped from 31 July 2024.	Actions should be taken to remove the unauthorized occupant and take possession of the house.

- (b) Although nine products, including coconut oil, had been produced and sold, no product other than coconut oil had been obtained a standards certificate from the Sri Lanka Standards Institution. Necessary instructions have been given to develop a plan to obtain standards certificates for all products in the future. Standards certificates should be obtained for all products.

### 3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) According to the physical stock verification conducted on 01 April 2024, although the soap production section had 17,691.5 kilograms of industrial oil, however, according to the records of that section, the quantity was 17,021.7 kilograms, resulting in a difference of 669.8 kilograms. The reason for this discrepancy had not been identified.	Due to exposure to the sun for approximately 75 years, some parts of the tank may have deformed, causing discrepancies. To accurately measure this, the entire oil stock in the tank should be removed and measured. Therefore, the actual stock as of 31 March has been calculated and recorded in the books.	The reasons for the discrepancy between the physical stock and the book stock should be identified.
(b) Out of the 30 activities included in the Action plan of the Company, 21 activities had not been implemented as of 31 March 2024.	Since the institution is scheduled to be restructured, the Ministry of Finance and the restructuring division have informed the BCC Company not to implement any new investments or new programs. The funds allocated for these programs had been used to settle the debts and statutory payments as per the instructions given. Therefore, some activities in the Action plan could not be carried out.	Plans should be prepared by considering the practical conditions and actions should be taken according to the plans.
(c) Out of the budgeted revenue of Rs. 1,434,440,000 for the year under review, only Rs. 920,350,000, or approximately 65 per cent, had been earned. Although the budgeted volume of coconut oil sales was 1,278	Since January 2024, the imposition of an 18 per cent value-added tax on coconut oil and the increase in coconut oil prices resulted in actual sales revenue being lower than the budgeted sales revenue and the	It is essential to ensure that the variations between the budgeted amounts for income and expenses and the actual figures are kept to a minimum.



metric tons, only 693.8 metric tons, or 54 per cent had been sold. The budgeted administrative expense for the year under review was Rs. 99,590,000, but it had been increased to Rs. 118,866,810, which is an increase of 119 per cent.

increase in employee salary expenses, employee welfare expenses, and social security tax contributed to the increase in administrative expenses.

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

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The soap production plant at the head office of the Company had been relocated to the Board of Investment premises in Watupitiwala in 2012, and it had been remained idle from the date it had been installed until 30 November 2024.	The machine, which is approximately 75 years old and installed in Watupitiwala, is being currently inactive. Other machinery owned by the Sampath Bank, located in the building where the machine is installed, is being removed by the bank. As a result, our employees are removing and taking our machine and its associated parts. The management has not yet made a decision regarding the re-use of the machine.	The assets of the organization should be used efficiently and effectively to generate income.

### 3.5 Resources Released to Other Organizations

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A 6-acre plot of land belonging to the Company had been handed over to the Ministry of Justice in 2019 for the construction of the Colombo Court Complex, as per a Cabinet decision. Although this land was valued at Rs. 7,229,173,000 as compensation by the Chief Assessor of the Colombo District on 04 November 2022, though the compensation had been confirmed by the Colombo Divisional Secretary, the compensation had not been received by the Company.	The Company was informed by the Director General of Public Enterprises through the letter dated on 26 September 2024, numbered PED/1/BCC/1/11(ii), which if a land owned by a government institution is transferred to another government institution, compensation and interest payments are not required.	Actions should be taken to obtain the compensation due to the Company.

