

Lanka Building Materials Corporation Pvt. Ltd. - 2023

The audit of the operational affairs of the Lanka Building Materials Corporation Pvt. Ltd (“Company”) for the year ended 31 December 2023 was carried out under my direction in pursuance of 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 Companies Act No.07 of 2007. The financial statements for the years 2019 to 2023, which were to be submitted in terms of Section 150(1) of the Companies Act No. 07 of 2007, had not been submitted even by 25 November 2024. According to the Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, my comments and observations which I consider should be report to Parliament appear in this report.

1. Financial Statements

1.1 Responsibilities of Board of Directors and Those Charged with Governance for the Financial Statements

Board 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 scale enterprises (SLFRS for SMEs) 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.

1.2 Non Presenting of Financial Statements

Audit Observation	Management Comment	Recommendation
<p>Although the annual financial statements and draft annual report should be submitted to the Auditor General within 60 days of the end of the accounting year as per paragraph 6.6 of the Manual included in the State Enterprise Circular No. 01/2021 dated 16th November 2021, the Lanka Building Materials Corporation Limited had submitted the financial statements for the year 2018 with a delay of 4 years and 08 months.</p> <p>The company had not submitted financial statements stating that the computer server used by the company was disabled due to a virus attack in 2019 and that the information required to prepare the accounts was not available due to the fact that data backups were not stored at that time. Although a complaint was made to the Criminal Investigation Department on 28 April 2022 in this regard on the orders of the Committee on Public Enterprises held on 19 April 2022, the current status of those reports had not been submitted for audit.</p>	<p>The financial statements for the year 2018 had been given for audit on 27 October 2023. The financial statements for the years 2019, 2020, 2021 and 2022 have now been drafted.</p> <p>Investigating the complaint filed by the Criminal Investigation Department regarding the malfunctioning computer system in 2019 and a report on the matter has not been received as of 04 March 2024.</p>	<p>Action should be taken to submit financial statements in accordance with circular instructions.</p>

2. Operating Review

2.1 Existing Assets and Liabilities

	Audit Observation	Management Comment	Recommendation
(a)	According to the financial statements prepared by the company as of December 31, 2018, the company's assets were Rs.549.05 million, liabilities were Rs.1479.27 million, equity were Rs.(930.22) million, revenue was Rs.222.68 million and expenses were Rs.(184.82) million.	It is expected that a new business plan will be prepared that aims to improve sales and utilize the company's existing resources more efficiently, and that it will be transformed into a profitable organization accordingly.	Management must plan operations to efficiently utilize the company's assets, meet liabilities, minimize financial costs, and increase profits.
(b)	The company's net profit margin had decreased from (3.5) to (75) from the year 2014 to the year 2018.	Plans are being prepared and necessary steps are being taken to restore the organization to a profitable state by increasing sales volume and managing corporate expenses.	It is the responsibility of management to take prompt steps to systematically and strategically increase the company's profit margin.

2.2 Internal Control

It was observed that the internal control systems introduced for the company's purchasing and sales areas are at a very weak level and the following facts were revealed during the audit.

2.2.1 Purchasing of Goods

Following observations are made in this regard.

	Audit Observation	Management Comment	Recommendation
(a)	In order to improve the transparency of the procurement process and minimize delays, the company had not taken steps to obtain the most financially beneficial and highest quality works and supplies for the public, as per the Government Procurement Guidelines, and contrary to the Government Procurement Guidelines 2 committees consisting of 05 officers each had been appointed to make procurement decisions, as per the Board of Directors' Decision No. 296 dated 30 January 2023.	Future actions will be taken in a manner that does not conflict with the prescribed procurement process.	When making purchases for the institution, government procurement guidelines must be followed.

(b)	According to 2.8.1(a) of the Procurement Guidelines, Technical Evaluation Committees should have been formed for all procurements under the purview of Departmental Procurement Committees, but no Technical Evaluation Committee had been formed for the company's procurement decisions. In terms of Procurement Guidelines 2.8.1 (b) evaluations from an expert on the subject matter required for the purchases had not been obtained.	Once the new Board of Directors is appointed, immediate steps will be taken to ensure that the relevant Technical Evaluation Committee acts in accordance with the Procurement Committee guidelines.	When making purchases, the company should take action in accordance with the Government Procurement Guidelines dated 25 January 2006.
(c)	Although conditions were included in the bidding documents that brand names should not be mentioned in accordance with 5.6.1 of the Procurement Guidelines, when purchasing goods worth Rs. 16.78 million in the year 2023, quotations had been called based on the brand name and the Corporation had based its procurement decisions only on that brand.	Measures are taken to ensure that brand names are not mentioned in purchases at any time, except when buyers specifically mention the brand.	Government procurement guidelines should be followed.
(d)	When making payments to suppliers, the company had to check all invoices, goods receipts, purchase orders, prepare payment vouchers, check and approve the payment, but the company had made 50 percent of the value of the purchase order along with the payment.	Due to difficulties in obtaining goods from suppliers on credit, the company had made a 50 percent advance payment with the purchase order.	When making payments to suppliers, payments should be made after the receipt of goods has been duly confirmed.

2.2.2 Sales of Goods

Audit Observation	Management Comment	Recommendation
(a) According to the report submitted by the Corporation's Accounting Division for the year 2023, the sales revenue was Rs. 469.56 million, while according to the report submitted by the Marketing Division, the sales revenue was Rs. 418.36 million. Accordingly, a difference of Rs. 51.30 million was observed in sales revenue between these two divisions.	Relevant comparisons are being made to verify the differences between the sales data received from the sales department and the sales data recorded in the finance department.	Steps should be taken to identify and account for accurate sales revenue.
(b) The sales revenue of 19 sales centers in 2022 was Rs. 3,324.18 million and the	The company was able to reach a higher sales level due to receive a	Alternative strategies should be identified to

sales revenue in 2023 was Rs. 418.36 million. A decrease of Rs. 2,905.82 million, or 87 percent, was observed in sales revenue when compared to the year 2022.

special opportunity to import tiles in 2022. As the project work was completed with the beginning of 2023, daily normal sales were carried out through sales branches.

increase sales revenue.

2.3 Accounts Receivables and Payables

	Audit Observation	Management Comment	Recommendation
(a)	Confirmations and updated age analysis regarding receivable and payable balances as at 31 December 2023 had not been submitted to the audit. According to the information submitted, the total receivables were Rs.453.60 million and total payables to external parties were Rs.471.98 million as on 30 June 2024.	It is planned to submit the information related to the year 2023 to your institution in August 2025. It is expected to prepare a plan for making payments on behalf of short-term creditors and take necessary action.	That management should take steps to maintain up-to-date information records of receivables and payable balances and to confirm and settle outstanding balances promptly
(b)	<p>i. The company had provided building materials to the company's employees on the basis of recovery from salary without formal approval and without a formal procedure, and as of 30 August 2024, Rs.1.38 million was to be recovered from 13 employees. There was no approval for providing goods on credit basis, and opportunities to sell these goods to external parties and obtain cash at once had been lost.</p> <p>ii. The goods had been given to the same person again without any limits, even before the value of the goods given once was recovered.</p>	<p>The approval of the General Manager has been received. Steps will be taken to recover this money in installments.</p> <p>Necessary steps will be taken to prevent such situations from recurring.</p>	<p>Receivables must be promptly collected.</p> <p>Supply of goods on credit should be done under an approved methodology.</p>
(c)	The court has ordered a payment of a surcharge of Rs. 3.98 million due to non-payment of Employees' Provident Fund contributions from January 2004 to December 2013. A total of Rs. 2.85 million, at a monthly rate of Rs. 50,000, had been paid as of 31 December 2023, and a further balance of Rs. 1.13 million was due.	A further amount of Rs.1.13 million remains to be paid.	Action should be taken to pay the outstanding Employees' Provident Funds promptly.

(d)	As per the Cabinet decision No.අමප/07/1625/342/021 dated 27 September 2007, a 100 perches plot of land belonging to the company located at Sri Sangharaja Mawatha, Colombo 10 was transferred to the Inland Revenue Department and an advance of Rs. 50 million was received by the Company on 22nd February 2008. Although the advance received was to be refunded, the Company had not yet taken steps to pay this Rs. 50 million to the Inland Revenue Department.	A decision regarding the repayment of this advance will be taken after the new Board of Directors is appointed.	Advances should be refunded in accordance with the decision of the Cabinet.
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2.4 Long Term and Short Term Loans

	Audit Observation	Management Comment	Recommendation
(a)	<p>The Company had obtained a short-term loan of Rs. 150 million from People's Bank on 03 occasions during the period from 02 March 2017 to 10 April 2018 to meet its working capital requirements. Notwithstanding the purpose of granting this loan, the Company's administrative expenses, including other expenses, had already been borne from this loan.</p> <p>However, since the Company had failed to repay this loan as scheduled, the total outstanding amount due as of 22 August 2023, including the loan amount and accrued interest, was Rs. 226.46 million and the penalty payable for it was Rs. 19.07 million.</p>	On the advice of the Ministry and with the approval of the Board of Directors, an agreement will be reached with the relevant bank regarding the repayment of this loan.	Management is responsible for not utilizing the loan proceeds and repaying the loan in accordance with the terms of the loan agreement.
(b)	In order to enable the company to overcome financial difficulties and become a strong stakeholder in the construction industry, Bank of Ceylon had been given a loan amount of Rs.500 million to the company on 23 October 2018 with the approval of the Cabinet dated 28 March 2018 and No. අමප/18/0504/736/007 on a Treasury guarantee. From that, an amount of Rs. 199.05 million that was due to the Bank of Ceylon was deducted and the remaining amount of Rs. 301.38 million was given to the	It is reported that these payments were made based on the decision of the management at the time. Expenditure contrary to the purpose for which the loan was obtained will not be made in the future.	Management should take steps to use the loan proceeds for the purpose for which they were obtained.

institution. Of that, 35 percent i.e. Rs.105.98 million was spent on employee salary payments, employee provident/trust fund payments, other administrative expenses payment, loan interest payments, settlement of overdrafts, festival advance payment, which were expenses contrary to the purpose of obtaining loans.

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| <p>(c) The outstanding interest amount on this Rs. 500 million loan as of 28 December 2023 was Rs.321.14 million. Also, the 5-year grace period ends on 23 October 2023, after which the capital portion of the loan should be paid as scheduled, but no payment plan was presented in this regard.</p> | <p>Efforts will be made to reach an agreement with the relevant bank regarding the repayment of this loan.</p> | <p>The company should take steps to repay the bank loan under a formal system and plan.</p> |
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2.5 Procurement Management

Audit Observation	Management Comment	Recommendation
(a) Limited quotations were invited from 05 organizations in the year 2021 for the purchase of a new computer system due to the inefficiency of the software system being used by the company. The specifications for this had been prepared by the institute, but, the institute had not prepared and approved a total cost estimate according to section 4.3 of the Government Procurement Guidelines.	Efforts will be made to implement the correct public procurement guidelines in the future.	Procurements should be carried out in accordance with the procurement guidelines.
(b) Only two out of the 05 institutions that had invited quotations had submitted quotations and a technical evaluation committee consisting of 07 members, which did not comply with Section 2.8 of the Government Procurement Guidelines, had recommended the purchase of the relevant software system from one company for a value of Rs. 6.91 million. The information on the quotations so submitted had not been submitted to the audit.	The Technical Evaluation Committee will be properly appointed in future transactions and action will be taken in accordance with the relevant guidelines.	Procurements should be carried out in accordance with the procurement guidelines.

(c)	The company had not yet purchased appropriate computer software as of the audit date of 15 August 2024, and a large number of errors were observed in the data entry of the company's sales, purchases and bank balances.	These issues will be studied and steps will be taken to update the existing computer software or purchase new software under the prescribed procurement process.	Steps should be taken to update the company's existing computer software or purchase new software in accordance with procurement guidelines.
(d)	Renovation and modernization of the Prime Minister/Fifth Executive President's official residence		
	Approval was granted for the repair and renovation works of the Prime Minister/Fifth Executive President's Official Residence by Cabinet Decision No. අමප21/1779/302/002/-1 dated 26 October 2021, and the company had issued an invoice amounted to Rs. 639.22 million for the repairs and maintenance by 14 May 2024.		
i.	For this renovation work, goods were issued and invoiced for this official housing project based on the purchase orders of the Company from 16 suppliers nominated by them without competitive bidding to obtain the materials required for this project, based on the verbal instructions of the house builders who were selected for this renovation work paying an amount of Rs. 13.07 million without a procurement process and without entering into a contract.	Such transactions will be handled in future in accordance with the procurement guidelines.	Suppliers should be selected in accordance with the procurement guidelines.
ii.	Although invoices amounted to Rs.1,196.25 million had been issued for the project, vouchers amounted to Rs.557.03 million had been incorrectly used, thereby the company's sales value had been manipulated.	The Internal Audit Division has been directed to investigate this matter at the corporate level.	The actual sales value identified based on the actual invoice value should be presented in the financial statements.

2.6 Non-compliances with Tax Rerulations

Audit Observation	Management Comment	Recommendation
(a) A sales revenue of Rs.2,924.73 million had been received under the company's tile project from September 2021 to 31 December 2023, but the value added tax of Rs.129.59 million collected under the Value Added Tax Act No. 14 of 2002 had not been remitted to the Inland Revenue Department.	Data related to the 4 th quarter of 2021 is being entered and upon completion, steps will be taken to adjust the Value Added Tax value related to the third and fourth quarters in the VAT returns and take necessary action.	That the tax collected under the Value Added Tax Act should be immediately remitted to the Inland Revenue Department.
(b) The outstanding Rates and Taxes amounting to Rs. 19.24 million and the related fine amounting to Rs. 4.34 million due to the Colombo Municipal Council from the year 2007 to 31 December 2023 had not been settled as of 31 December 2023.	It is expected that an agreement will be reached with the Municipal Council regarding the payment of those taxes in the near future, according to the financial situation of the institution.	Efforts should be made to reach an agreement with the relevant local government regarding the Rates and Taxes that must be paid promptly.

2.7 Non compliances with Laws, Rules, Regulations and Management Decisions

Reference with Laws, Rules and Regulations	Non-Compliance	Management Comment	Recommendation
(a) Public Enterprises Circular No. PED 01/2021 dated 16 November 2021 Section 6.7	Annual board of survey had not been conducted and those reports had not been submitted for audit.	The board of surveys for the year under review is being conducted. After the Board of Directors is appointed, the relevant reports will be submitted for audit with its approval.	According to the circular instructions, the board of survey should be done on the scheduled date and the reports should be submitted for audit.
(b) Asset Management Circular No. 01/2017 issued by the Treasury Secretary's letter No. MF/CG/02/(Cir) dated 28 June 2017.	The company had not submitted information about office equipment and furniture to the Comptroller General's office.	Information on office equipment and furniture will be submitted to the Comptroller General of the Treasury before the end of 2024.	That the company should submit information about office equipment and furniture to the office of the Comptroller General as per the circular instructions.

2.8 Vehicle Utilization

Audit Observation	Management Comment	Recommendation
Five vehicles costing Rs. 26.29 million had been handed over by the Ministry during the period 2018-2021 for the use of the company, but the ownership of those vehicles had not been transferred and all those vehicles were in an un-drivable condition and no steps had been taken as of 16 August 2024 to repair or return it to the Ministry.	Necessary steps are being taken to return the vehicles to the Ministry.	The management should arrange to hand over the vehicles to the Ministry.

2.9 Informal Transactions

Audit Observation	Management Comment	Recommendation
(a) The company was running Trincomalee, Kuliapitiya, Kurunegala and Tangalle sales centers in buildings acquired on rent basis and the company had entered into an agreement with the building owners to pay a monthly rent of Rs.35,000 for the Tangalle sales center, a monthly rent of Rs.30,000 each for the Kurunegala and Kuliapitiya sales centers, and a rent of Rs.25,000 for the Trincomalee sales center. Even so, the method used to select these buildings was not observed by the audit during the checking of the files and evidence was not submitted to the audit that all interested parties had been given an opportunity in this selection in a transparent manner.	In the future, when renting sales centers, efforts will be made to provide an opportunity to all interested parties in a transparent manner.	All interested parties should be given opportunities to participate in the selection of the optimal supplier from among competing bidders.
(b) The audit did not confirm on what basis these rents were valued. According to the draft monthly accounts prepared for the year 2022, the losses incurred by the Trincomalee, Tangalle, Kuliapitiya and Kurunegala sales centers during the year 2022 were Rs. 0.12 million, Rs. 1.82 million, Rs. 0.41 million and Rs. 0.82 million respectively.	Rent is being paid on old agreements. Although it was decided in January 2023 to close the Tangalle and Kurunegala sales centers, since they have been ongoing until now, this decision will be reviewed and a decision will be taken by the new board of directors.	Loss-making sales centers should be closed in accordance with the decisions of the Board of Directors.

Due to the non-preparation of draft monthly accounts for the year 2023, the loss for that year could not be identified.

As per the letter No. 4.2/199 dated 25 April 2023 from the Manager - Human Resources/Acting General Manager, the relevant depot managers had been informed that it had been decided to close the Tangalle and Kurunegala sales centers at the 296th Board of Directors meeting held on 30.01.2023, but rent payments had been made for the relevant sales centers in July 2024.

2.10 Transactions contrary to the Objectives

Audit Observation	Management Comment	Recommendation
<p>(a) Tile Project</p> <p>In order to reduce the shortage of tiles in the market at a time when import restrictions have been imposed due to the foreign exchange crisis in the country, the permission to import tiles was given only to the company through the Extraordinary Gazette No. 2231/18 dated 11 June 2021. Accordingly, due to the lack of financial strength for the company to carry out import operations, It was agreed to enter into MoUs with the companies that are interested in the sale of those materials, import tiles with their own money under the name of "BMC" and share 1/3 of the profit from the sale to the company and 2/3 to the partner company that is investing money on behalf of the company. From the beginning of the tile project to 30 June 2023, the import value of tiles was Rs.928.88 million and the sales value was Rs.2,695.82 million. Following observations are made in this regard.</p>		

<p>(i) The total receivable value as of 26 August 2024 amounted to Rs. 87.76 million, including the profit value of Rs.64.84 million due from the imported tiles and Rs.22.92 million due from the import costs incurred by the Corporation. The remaining receivable balance, after deducting the sales value of Rs.36.37 million that has been retained by the suppliers, is Rs.51.38 million. The value of the unsold tile stock held by the Corporation is only Rs.6.46 million.</p>	<p>The amount of Rs. 22.92 million from the balance due to the Tile project is the difference in foreign currency remittances, which is a figure that arose due to the dollar crisis that occurred in recent years. As a result, the profit percentage of the Tile project has increased to 30%-45%, increasing the total profit by Rs. 174.90 million. Necessary steps are being taken to recover the profit values that are due.</p>	<p>Action should be taken to recover the profits due.</p>
<p>(ii) Although the tiles were imported under the name “BMC”, the company was not aware of all the orders being placed. Even though the import was contracted to be done through telegraphic transfer, contrary to that, by paying money from their account, the company had worked to release the tile stock worth US\$ 154,928.27 from the port, which the company had imported without any notification and for this purpose, the permission received from the Central Bank of Sri Lanka to dispose of foreign exchange from the island was also not submitted to the audit.</p>	<p>Based on the long-standing business relationship between a private company importing tiles and a private company that is a foreign tile supplier, the supplier company has refused to pay the US Dollar amount of 154,928.27 in invoices EX21220636, EX21220637, EX21220680 and EX21220681, SC 64, and it was revealed that an affidavit has been submitted to the company stating that if any problem arises from the Central Bank of Sri Lanka or a legal issue in the future, the private company importing tiles will assume all responsibilities in this regard.</p>	<p>That the management of the company should confirm that action will be taken in accordance with the objectives of the gazette.</p>
<p>(iii) Whereas the import of ceramic tiles has again been suspended vide Extraordinary Gazette No. 2312/78 dated 01 January 2023 due to shortage of foreign exchange reserves, and despite this, Permission had been granted to a company that imported tiles for a private housing project and to a company that imported tiles for the renovation of the first floor of a private building. Also, 1500 tiles from the stock of tiles imported by the company were allowed to be released on 06 July</p>	<p>Due to the problematic situation arose from the gazette notification relating to the BMC Tile Project, the clearance of the imported tile stock from the port on 16.05.2023 was delayed for more than a month, which resulted a privet company had to face a financial difficulty due to the increase in late charges, and it was informed that the Company's profits share and the relevant tax amount could not be given to them first as per the agreement and that it would be given to them in the next sale proceeds, and considering that request, and since that company had a stock of 5860 tiles left for</p>	<p>The conditions of the Gazette must be complied with.</p>

2023 without charging any profit or tax to the company with the approval of the General Manager.

sale out of the tile stock imported, the sales revenue for 1500 tiles were allowed to be given to them.

- (iv) According to the agreements, the supplier should have paid the Company's profit share to the Company first after the goods were cleared, but due to non-compliance, the profit share due to the Company was Rs. 3.41 million as of the audit date of 16 August 2024 and the stock value of the other company tiles owned by the Company was Rs. 2.18 million. In addition, the Company had to bear the import expenses of the supplier, while the total amount receivable was Rs. 8.51 million, including Rs. 5.10 million due to the Company, while the amount of Rs. 5.01 million that had been retained without being paid to the supplier had been offset against the profit share receivable by the Company. Accordingly, the retained value of Rs. 6.53 million shown in the Company's records as of 2023.07.13 had been reduced to Rs.1.52 million.

The amount still to be recovered from the other company is Rs. 6.99 million, of which Rs. 5.10 million is the foreign currency remittance difference, and it was learned that this company has generated an additional profit of Rs. 11.01 million by increasing the profit percentage to 30% - 45%.

A decision should be taken promptly regarding the foreign remittance difference included in the amount due and the amount due should be recovered.

Apart from that amount, the amount that is still due to the company is Rs. 1.89 million. It was revealed that the stock value of the other Company is Rs. 2.18 million and that a final decision has not yet been reached regarding the foreign remittance difference of Rs. 5.10 million that is still to be recovered from them.

(b) **Release of materials from Building Materials Corporation for Model Village Programme**

The building materials needed by the house owners of the Suriya Pokuna Debokkawa housing project implemented by the National Housing Development Authority had been issued by the corporation on loan basis during the period of 7 years from 2015 to 2021. Building materials worth Rs. 34.69 million had been issued without any

The balance after correction was Rs. 26.72 million. Out of which Rs. 0.12 million had been collected so far.

That the management of the company should take action so that the business objectives of the company can be fulfilled.

restrictions from the branch warehouses of Ambalantota, Tangalle, Lunugamwehera, Tissa, Weerakatiya, Embilipitiya, Suriyawewa, belonging to this building materials corporation. The outstanding loan balance as of 30 August 2024, amounted to Rs. 26.59 million and there were instances where goods worth more than Rs. 10 million were issued in the name of one officer.

2.11 Performance

Audit Observation

Building Materials Corporation Ltd. was established in the year 1971 under the Sri Lanka State Trading (General) Corporations Act No. 33 of 1970 was re-registered in 1992 under the Companies Act No. 17 of 1982 and in the year 2010 under the Companies Act No. 07 of 2007 and its vision was "to be the leader in the supply of high quality building materials and equipment in accordance with the standard at a competitive price throughout the island and to build maximum credibility in the Sri Lankan community by fulfilling social responsibilities as a public institution". However, at present, the company was engaged in only limited business activities.

The company's renovated main showroom displayed the sales stalls of private building materials and equipment suppliers, and the company's vision was not covered by these business activities, such as purchasing their materials and equipment and selling them at a profit margin, selling cement, sheets and iron sent from the head office through the company's branch offices at a price set by the company, purchasing items not available in the showroom from the external market and selling them at a profit margin, and selling tiles imported by other institutions under the name of the Building Materials Corporation.

Management Comment

Due to the current financial situation of the institution, a sudden change in the current business strategy may lead to more adverse situations. Therefore, plans are being made to gradually move away from informal business strategies and approach the desired mission of the institution.

Recommendation

That it is the responsibility of the management to manage the affairs efficiently and effectively according to the goals and vision of the company.

2.12 Identified Losses

Audit Observation	Management Comment	Recommendation
(a) There were 8 pending court cases against the company as of 30 June 2023, but so far, except for 2 cases, other cases had been concluded. Of the amount due by the company under court orders for those 2 cases, an amount of Rs. 8.48 million was still to be paid to the relevant parties.	<p>The 2 pending cases are as follows.</p> <ul style="list-style-type: none"> • MC 6785/17 EPF - An amount of Rs.3.98 million was to be paid, in monthly installments of Rs.50,000, and a further amount of Rs.1.13 million (23 installments) remained to be paid on 29 December 2022. • HC (Civil) 316/2003 (1) – Payments of Rs.100,000 each month were made as per settlement agreement and further Rs.7.36 million (74 installments) were to be paid. 	That the management should work to manage the affairs of the company so that the lawsuits against the company are minimized.
(b) Quotations had been invited from cement companies for the import of cement for local needs and a private company had been selected without following a proper procurement process to supply 5600 metric tons of cement packed in 50 kg paper bags printed with the name “BMC” at a cost of US\$ 79.50 per metric ton. On the instructions given by the Additional Secretary (Construction) of the State Ministry vide letter No. 7/2/2/651 dated 24 February 2022 to enter into an agreement and to pay Rs. 05 million as an advance payment, the then Chairman entered into an agreement with the company on 14th March 2022 without prior confirmation and therefore it was not possible to recover the advance payment of Rs.05 million paid for the import of cement.	The supplier has refused to return this deposit as the project was not implemented by the institution. In order to take further action in this regard, a complaint will first be filed with the Fraud Investigation Division/ Criminal Investigation Department or the Bribery or Corruption Investigation Division, as indicated by the legal department of the institution.	Under the Public Property Act, steps should be taken to recover damages from the party responsible for the loss caused to the institution.
An investigation officer of the Ministry of Public Administration, Home Affairs and Local Government had been appointed to		

conduct a preliminary investigation into this issue at the request of the Secretary to the Ministry of Urban Development and Housing. Although it had been recommended that action be taken under the Public Property Act against the officers who signed the above agreement and who have left the service and are responsible for the loss caused to the company during the import process to recover that loss, no action had been taken to implement those recommendations to date.

2.13 Assets Management

Audit Observation	Management Comment	Recommendation
<p>(a)</p> <p>On the approval of the Board of Directors dated 19 July 2005 and 03 October 2006, the Company had sold 03 roods and 3.2 perches of Lot No. A and B of Plot No. 1762, and 15 perches of Lot No. A of Plot No. 5107 and one rood and 13.20 perches of lot No.1 of Plot No. 4365, located at No. 541, Sangharaja Mawatha, Colombo 10, to a real estate company for Rs.222.50 million.</p> <p>However, in accordance with the conditions and restrictions set out in the Second Schedule to the Certificate of Transfer No. අඪ/1/146 of the Land Acquisition Act No. 28 of 1964, this land should not be used for any purpose other than the purpose for which it was acquired without the proper permission of the relevant Ministry, contrary to that, steps had been taken to sell the relevant plots of land.</p> <p>The real estate company had filed an eviction case against the company on 04 September 2007 in the Colombo District Court under Case No. 25514/L, in order to obtain the clear possession of these properties, and the case was settled as the company had agreed on 10 January 2012 to pay a sum of Rs.359.32 million before 31 January 2012 to the above institution and reacquire the ownership of the lands. However, since the company had not paid the relevant amount as agreed, the real estate company had already taken steps to obtain the final possession of the lands.</p>	<p>The land in question was acquired by HDFC Bank in November 2022 on a court order.</p> <p>The Board of Directors will not take any decisions to sell the lands owned by the institution without the proper permission of the relevant Ministry</p>	<p>Land transferred without formal approval and for purposes other than the intended purpose should not be sold, and care should be taken to properly manage the assets owned by the company.</p>

(b)	100 perches of land owned by the company located at No. 541 Sri Sangharaja Mawatha, Colombo 10 was transferred to the Bank of Ceylon through a deed of sale for 70 million rupees on 09 November 1998 and Later, the company had offset Rs.199.05 million from the loan amount of Rs.500 million received from the Bank of Ceylon on 23 October 2018 along with the amount of Rs. 70 million related to the above sales contract, including the outstanding amount of the loan and the interest payable accordingly. Bank of Ceylon should pay the stamp duty of Rs. 18.39 million, which is related to the value of the deed prepared and sent by the bank, after offsetting the above money, and take possession of the land again, but it has not been taken over by 31 December 2023.	After the notice by the Bank of Ceylon to obtain an opinion poll from the Inland Revenue Department regarding the amount of stamp duty of Rs.5.38 million, the estimated stamp duty was informed as Rs.18.39 million. A request has been made to the provincial revenue department to reduce it.	That the management should take immediate action to take over the ownership of the land by duly paying the relevant stamp duty.
(c)	No steps had been taken to obtain deeds for the lands under the company located in Moratuwa, Anuradhapura and Ampara extended of 3 acres 3.5 roods 17 perches.	The necessary steps are being taken to obtain the deeds.	Action should be taken with the relevant institutions to prepare and register title deeds.
(d)	The company's land measuring 01 rood and 31.6 perches at Kunguniyar Uppukulam Karai, Jaffna, and the building at Bambarakele, Nuwara Eliya and 02 houses at Yodhagama, Embilipitiya have been lying idle since 2017 without being utilized.	Although it has been recommended to carry out basic development activities to utilize it for utilization, development activities have been temporarily halted due to the lack of financial facilities at the institution.	Efforts should be made to utilize existing resources efficiently.
(e)	The arrears of lease and fines from 1997 to 31 December 2022 for the land of 01 rood at Embilipitiya Road, which was granted by the Mahaweli Authority for a 50-year lease, amounted to Rs. 1.65 million. The Mahaweli	Steps are being taken to pay the outstanding leases in installments.	Steps should be taken to properly pay leases, including arrears,

Authority had informed that the lease may expire due to non-payment of this lease and that action would be taken according to the law.

and to generate income through the utilization of those lands.

- (f) Warehouse No. 07 with 1,513 square feet was given at Rs.55 per square foot for a monthly rent of Rs.83,215 from 01 September 2017, warehouses No. 05 and 06 with 1,568 square feet were given at Rs.55 per square foot for a monthly rent of Rs.86,240 from 01 October 2016, and warehouses No. 01,02,03,04 with 3,136 square feet were given at Rs.55 per square foot for a monthly rent of Rs.172,480 from 27 May 2015 had been leased for the services of the National Lottery Board, which had located at company premises No. 541 Sri Sangharaja Mawatha and the same warehouses had been rented out in 2020 at the same rental amount as in 2015, 2016, and 2017 without renewal of the agreements. The National Lotteries Board had not paid the electricity bills of Rs. 60,382 due for these warehouses from July 2018 to January 2021, and the warehouses had been handed over again on 31 December 2021.

Although we informed the institution about the amount of Rs. 60,382 that was due to us from 2018 to 2021, the National Lottery Board has informed our institution that it is not possible to pay the amount as no agreement has been signed.

We will ensure that no lease of the institution's premises takes place in the future without specific agreements.

The assets should be assessed and the rent amount should be updated accordingly, and the warehouse should be rented out under a formal agreement.

2.14 Cash Management

Audit Observation

The company maintains 10 bank accounts and no cash books were maintained showing the opening and closing balances for the year 2023 and no bank reconciliation statements were prepared. According to the confirmation of the bank account balances, the debit balance of 03 bank accounts was Rs.33.49 million and the credit balance of 07 accounts was Rs.51.34 million. Due to this, the company had not implemented adequate cash control.

Management Comment

Cash book and bank reconciliation statements have been prepared for the year 2022 for 2 current accounts and cash book has been prepared for the remaining current accounts up to September 2022.

Cash book has been prepared for the year 2023. Bank reconciliation statements related to it have not been prepared.

Cash book has been prepared for all current accounts for the year 2024 and arrangements have been made to prepare bank reconciliation statements.

Recommendation

Management should immediately take steps to prepare monthly cash books and bank reconciliations based on a more accurately calculated opening balance, and that it is their responsibility on financial management.

3. Human Resource Management

Audit Observation	Management Comment	Recommendation
<p>(a) The institution had not taken action as the following sections of the Manual of Public Enterprises Circular No. 01/2021 dated 16 November 2021.</p> <p>i. Arrangements had not been made to obtain approval from the Department of Management Services for the cadre in accordance with paragraph 3.3 (i).</p> <p>ii. The company did not have a recruitment procedure that had obtained the necessary approvals as required in paragraph 3.2 (i).</p>	<p>Action has now been taken in accordance with the provisions of the circular.</p>	<p>Action should be taken in accordance with the circular instructions.</p>
<p>(b) The entire capital of the Building Materials Corporation Ltd. is invested by the Treasury and is a registered company under the Companies Act No. 07 of 2007. Although, in accordance with Section 78 of its Articles of Association, the Secretary to the Treasury should appoint the Board of Directors of the company after consulting the Minister of Finance and the Minister of Housing and Construction, the letters of appointment of the Board of Directors were issued by the Secretary to the Ministry with the approval of the Minister of Urban Development and Housing.</p>	<p>The current Chairman is appointed by the Secretary of the Treasury. Other Board members are to be appointed.</p>	<p>Board of Directors appointments should be made in accordance with the provisions of the Companies Act.</p>

4. Accountability and Good Governance

4.1 Strategic Plan /Action Plan

Audit Observation	Management Comment	Recommendation
<p>In accordance with Section 2.3 of the Guidelines of the Public Enterprise Circular dated 16 November 2021, a strategic plan for a period of not less than 03 years and a corresponding action plan should be prepared to achieve the vision and mission of the company and the approval of the Board of Directors should be obtained for the relevant plans 15 days before the commencement of each financial year, but this had not been done. Confirmation had not been obtained regarding the performance of the company according to the guidelines and discussions had not been held with the General Treasury regarding its problematic situations when necessary.</p>	<p>A strategic plan for the years 2024 to 2026 and a corresponding action plan have been prepared and handed over to the line ministry on 11 October 2023.</p>	<p>Management should prepare a strategic plan and an annual action plan in accordance with the circular instructions.</p>

4.2 Non-implementation of the recommendation of the Committee on Public Enterprises

	Audit Observation	Management Comment	Recommendation
(a)	The recommendation made by the Committee on Public Enterprises held on 19 April 2022 for the approval of the number of employees working in the institution by the Department of Management Services had not been implemented up to the date of audit on 14 August 2024.	A proposed cadre has been prepared, including the number of employees in the institution, and has been submitted to the Department of Management Services for approval.	Cadre must be approved by the Department of Management Services.
(b)	Bank reconciliations had not been prepared as per the recommendations of the Committee on Public Enterprises.	<p>Cash book and bank reconciliation statements have been prepared for the year 2022 for 2 current accounts, but cash books have been prepared for the remaining current accounts up to September 2022.</p> <p>Arrangements have been made to prepare bank reconciliation statements for the years 2023 and 2024.</p>	Management should immediately take steps to prepare monthly bank reconciliations based on a more accurately prepared cash book.
(c)	Financial statements from 2019 to 2023 had not been prepared as per the recommendations of the Committee on Public Enterprises.	The financial statements for the year 2019 are being prepared and are scheduled to be submitted to the Board of Directors and submitted for audit upon completion. The financial information for the years 2020, 2021, 2022 and 2023 is being entered into the accounting information system and steps will be taken to prepare the financial statements for the year after they are completed.	Financial statements should be prepared annually based on accurate accounting data.

4.3 Internal Audit and conducting Audit and Management Committees

Audit Observation	Management Comment	Recommendation
As per the audit plan approved by the Chairman for the year 2023 on 31 December 2023, 73 percent of the activities specifically identified to be carried out in the year 2023 had not been carried out during the relevant period.	Since the Ministry sought the assistance of the Internal Audit Division to prepare the accounts, many activities related to the audit plan have been omitted.	Annual internal audit activities should be performed in accordance with the approved audit plan.