

**Ceylon Ceramics Corporation**  
**Chairman's Report – 2002**

As the Chairman of the Board of Directors of the Ceylon Ceramics , I am pleased to present the Performance Report of the Corporation for the year 2002.

**Progress**

Due to unstable social, political and security situation, the prevailed since 1999, and the power interruptions of 2001 & the first ½ of 2002, it was not possible to achieve 100 % production and progress expected for the year 2002.

**Production**

Therefore the actual production was only 52.82 % of the planned target. The production at factory level for the year 2002 is given below.

<b>Factory</b>	<b>2002</b>
Bangadeniya (closed for 6 months Due to power-cut )	7.29 %
Weuda	60.57 %
Eragama	99.8 %
Mahiyangana	65.8 %
Bingiriya	23.08 %
Uswewa	80.08 %
Elayapattuwa (closed for several Months due to power-cut 0	6.97 %
Yatiyana	44.55 %

Some factories have shown a high progress while in others, the progress was rather low due to the reasons given above. Since 1990, the factory at Odduchuddan in Mullativu has not contributed to the production process in view of the adverse civil disturbances in the area. It is not functioning since then.

**Marketing & Turn Over**

The net overall turn-over of the Corporation in the year 2002 was Rs. Million 118.67 as against Rs. Million 128.47 in 2001. Accordingly, the revenue from sales in this year Rs. Million 9.80 less than the previous year due to the circumstances stated above

The overall gross revenue form marketing, achieved by the Corporation in 2002 was Rs. Million 148.8 .

Since my appointment as the Chairman on 15<sup>th</sup> May 2002, I managed to increase the monthly revenue by Rs. 2 ½ - 3 M., against the first 6 months, by introducing professional methods and new systems in management & financial control.

**Progress**

In the latter half of 2002, new strategies on production , marketing, financial management, improvements of factory management and general administration were introduced to salvage the Corporation from the financial crisis prevailed during the last several years. The results of these plans will be achieved only in 2003 7 2004.

The arrears of salaries, outstanding over a long period were paid to employee, and steps were taken to make contributions to the E.P.F. and E.T.F. regularly.

Total implementation of some of these plans were not possible due to lack of sufficient money for reconstruction and development work and repayment of accumulated loans over a long period.

However, I wish to state that the foundation was laid to secure the future of the Corporation and its staff numbering about 930, by recommissioning the production of all the factories ( 8 ) and introducing new systems & methods, in administration, financial control, marketing & project management.

Sanath Weerakoon,  
Chairman,  
Ceylon Ceramics Corporation

**CEYLON CERAMICS CORPORATION**  
**Manufacturing, Trading & Profit & Loss Account for the year ended 31st December, 2002**

(Rs. '  
000)

	2002		2001	
<b>GROSS SALES</b>		148,832		155,942
Less - Discount		8,430		4,761
<b>DISCOUNTED SALES VALUE</b>		140,402		151,181
Less - Goods & Services Tax		16,647	12,704	
Defence Levy		5,078	21,725	10,006
<b>NET SALES</b>		118,677		128,471
<b>DIRECT COST</b>				
Direct Materials	5,207		7,845	
Direct Labour	53,291		50,810	
Gratuity	3,869		3,694	
Fuel & Power	34,020	96,387	51,378	113,727
<b>FACTORY OVERHEADS</b>		36,247		37,754
<b>TOTAL FACTORY EXPENSES</b>		132,634		151,481
Decr. (Incer.) in W.I.P.		(1,351)		98
<b>FACTORY COST</b>		131,283		151,579
Purchases		2,378		2,019
Decr. (Incer.) in Stocks		19,620		(10,417)
<b>COST OF SALES</b>		153,281		143,181
Operating Profit (Loss)		(34,604)		(14,710)
Other Profit / (Loss)		251		(152)
<b>GROSS PROFIT/ (LOSS)</b>		(34,855)		(14,862)
<b>A.S.D.</b>				
Adminis: & General Exp:		15,299		15,738
Selling & Dist. Exp.		195		1,991
<b>Finance Exp:</b>		2,504	17,998	2,448
<b>NET PROFIT / (LOSS)</b>		(52,853)		(35,509)
Other Profit / (Loss)		1,250		2,530
<b>NET PROFIT / (LOSS) FOR THE YEAR</b>		(51,603)		(32,509)
Adjustment for Prev. Year		1,536		(2,714)
Amount Written Off		6		51
<b>PROFIT/(LOSS) FOR THE CORPORATION</b>		(50,061)		(35,172)

**CEYLON CERAMICS CORPORATION**  
**Balance Sheet as at 31st December 2002**

(Rs.'  
000)

	2002		2001	
<b>Fixed Assets at Cost</b>	67,591		64,575	
Less - Cumulative Depre:	52,408		49,137	
Written Down Value		15,183		15,438
Add - Long Term loans		8,864		8,864
Capital Work in Progress		391		390
Fictitious Assets				692
		24,438		25,384
<b>CURRENT ASSETS</b>				
Stock	43,998		62,589	
Debtors - less Provision	50,836		59,089	
Diposit & Prepayments	7,725		8,161	
Advance & loans to Employees	2,788		2,773	
Cash In hand at Bank	1,846	107,193	4,710	137,322
Less -				
<b>CURRENT LIABILITIES</b>				
Creditors	174,002		150,433	
Accrued Expenses	7,935		5,387	
Advance / Deposits	11,385		11,692	
Provision	20,639		16,578	
Bank Overdraft	16,134	230,095	24,591	208,681
Work-in-capital		(122,952)		(71,359)
Net Assets		(98,514)		(45,975)
Less -Long Term Liabilities				
Bank Loans		(946)		(2,341)
<b>GRAND TOTAL</b>		(99,460)		(48,316)
<b>REPRESENTED BY</b>				
Authorized Capital		14,232		14,232
Government Grants & Contribution		2,640		3,723
Value of Assets & Transfer		18,919		18,919
General Ledger C/A Opening Balance		(70,958)		(35,786)
General Reserve				-
Current Year Profit		(50,061)	(121,019)	(35,172)
<b>GRAND TOTAL</b>		(99,460)		(48,316)

The Chairman  
Ceylon Ceramics Corporation

**Report of the Auditor General on the accounts of the Ceylon  
Ceramics Corporation for the year ended 31 December 2002 in terms  
of section 14(2) ( C ) of the Finance. Act No. 38 of 1971.**

The audit of accounts of the Ceylon Ceramics Corporation for the year ended 31 December 2002 was carried out under my direction in pursuance of provisions in Article 154(I) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(I) of the Finance Act No. 38 of 1971. In carrying out this audit, I was assisted by a firm of accountants in public practice. My observations which I consider should be published with the annual report of the Corporation in terms of Section 14(2) ( C ) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was forwarded to the Chairman of the Corporation on 04<sup>th</sup> April 2003.

### **1.2 Scope of Audit**

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive testes of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statement and assessment of accounting principles and significant estimated and estimates and judgments made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

### **1.3 Conversion of the Ceylon Ceramics Corporation (excluding the Bricks & Tiles Division) into a Public Company**

By Order published in the Government Gazette of 16 February 1990 under Section 2 (2)(ii) of the Conversion of Public Corporations or Government Owned Business Undertaking into Public Companies Act, No 23 of 1987, all the businesses carried on by the Corporation other than by the Bricks and Tiles Division had been vested in a Public Company incorporated in the name of "Lanka Ceramics Limited" on 19<sup>th</sup> January 1990. Accordingly the Ceylon Ceramics Corporation continues to carry out the business of the remaining units of the said Bricks and Tiles Division.

## **2. Accounts**

### **2.1. Audit opinion**

Except for the effects of the adjustments arising from the matters referred to in paragraph 2.3 of this report, I am of opinion that the financial statements have been satisfactorily prepared to present fairly in all material respects, the financial position of the Corporations at 31 December 2002 and the results of its operations for the year then ended in accordance with the Sri Lanka Accounting Standards other than the Standard referred to in this report and the stated accounting policies as set out in Notes 1 to 4 to the financial statements.

## 2.2 Financial Results

According to the accounts presented, the working of the Corporation for the year ended 31 December 2002 had resulted in a pre-tax net loss amounting to Rs. 50,060,501 as compared with the pre-tax new loss of Rs. 35,172,328 in the preceding year.

## 2.3 Comments on Accounts

### 2.3.1. Accounting, Policies

The following observations are made.

- (a). Although the physically verified balances of stock were available except for clay stock, the book balances amounting to Rs. 37,357,444 had been taken as the value of closing stocks for the preparation of accounts without complying with requirements in SLAS 5. As the value of physically verified stock balances as at 31 December 2002 was Rs. 31,456,782 the loss for the year had been understated by Rs. 5,900,662.
- (b). The provision of gratuity account had been understated by Rs. 10,168,256 due to errors in the basis adopted for calculation of provision for individual employees.

### 2.3.2. Accounting Deficiencies

- (a). Provision for interest amounting Rs. 934,796 had not been made in the final accounts in respect of the payables to Ceylon petroleum Corporation for credit purchases.
- (b). Debit balances are included in some creditor accounts as well as credit balances are included in debtor account, Therefore debtors account had 1,302,731.
- (c). Damaged stock amounting to Rs. 42,131 had been included in closing stock.

### 2.3.3. Unreconciled Control Accounts

Thirty one control account balances aggregating Rs. 33,026,890 maintained in respect of sticks had not been reconciled with the corresponding subsidiary ledger balances aggregating Rs. 40,549,762.

### 2.3.4. Accounts Receivable and Payable

The following observations are made

- (a). Out of the debtors totaling Rs. 53,464,847 balances aggregating Rs. 26,957,096 representing 50 percent were outstanding for more than five years.
- (b). Out of the creditors totaling Rs. 174,002,371, balances aggregating Rs. 48,698,186 representing 28 percent were outstanding for more than five years.

- (c). Confirmations had not been obtained in respect of 119 debtor balances totaling Rs. 54,762,478 and 91 creditor balances totaling Rs. 135,619,232

### **2.3.5. Lack of Evidence for Audit**

Eight motor vehicles registration books had not been furnished to audit.

### **2.3.6. Non-compliance with Laws, Rules, Regulations and management Decisions**

Following instances of non-compliance were observed.

Provisions of the following Laws, Rules and Regulations had not been properly complied with.

- (a). Sections 13(5), 14(1) and 14(3) OF THE Finance Act no. 38 of 1971.
- (b). Internal Circular dated 22<sup>nd</sup> October 1996 of the Ceylon Ceramics Corporation
- (c). Financial Regulation 177.

## **3. Financial and Operating Review**

### **3.1 Financial Results**

The operations of the Corporation during the year under review had resulted in net loss of Rs. 50.06 million as compared with the loss of Rs. 35.17 million in the preceding year thus showing a deterioration in the Financial result by Rs. 14.89 million in the expenditure of the Corporation.

### **3.2. Performance of the Factory**

Following observations are made in connection with the performance.

- (a). The production of tiles, bricks and others had recorded an overall decrease by 28 percent as compared with the preceding year. The total actual production of tiles bricks and others had been 11,190,099 units or 53.74 of the budgeted production of 24,191,000 units.
- (b). The production of tiles of all the factories except Eragama and Uswewa factories had decreased as compared with the preceding year and the production of bricks and other had increased by 668,000 units a compared with the preceding year.

### **3.3. Plant Capacity utilization**

The optimum capacity, budgeted capacity and the capacity utilized in terms of production of tiles and bricks in all units excluding Oddusuddan tile Factory) of the Corporation during the year under review and in the preceding year are given below.

<b>Year</b>	<b>2002 Unit '000</b>	<b>2001 Unit '000</b>
Optimum capacity	27,400	27,400
Budgeted capacity	24,191	24,916
Actual capacity utilized	11,190	15,707
Actual as a percentage of the budget	54	63

The frequent break down of machinery due to the power crisis had been attributed as the reason, for under utilization.

#### **3.4. Funding Arrangement for Provision for Payment of Gratuity**

The accumulated provision for payment of gratuity as at 31 December 2002 amounted to Rs. 18,816,746. However no funding arrangements had been made by the Corporation to meet liabilities as and when they arise.

#### **3.5. idle Assets**

Fixed assets valued at Rs. 4,479,867 had been lying idle at the Oddusuddan factory as there was no production at that factory since 1990.

#### **3.6. uneconomic Transactions**

- (a). A sum of Rs. 46,226 paid as salaries for Security Guards of the factory at Nurani on behalf of the Ministry had not been recovered by the Corporation.
- (b). A sum of Rs. 8,864,436 had been spent during 1975 – 1975 on behalf of the Ministry in respect of three factories which did not belong to the Corporation. Action had not been taken by the Corporation to recover the account.
- (c). Interest amounting to Rs. 2,383,435 had been paid of Bank overdraft facilities amounting to Rs. 16,183,608.

#### **3.7. Vehicle utilization**

The following observations are made

- (a). The Corporation had a fleet of 39 vehicles comprising of 03 cars, 03 lorries, a van 13 tractors and 14 trailers ,02 three wheelers and 02 jeeps as at end of the year under review. The total expenses incurred on fuel and repairs amounted to Rs.1,869,364.
- (b). It was observed that 04 motor vehicles used by Corporation are registered in the name of other institutions.

#### **3.8. Budgetary Control**

Significant variations were observed between the budget and the actual thus indicating that the budget had not been made use of as an effective instrument of management control.

**4. Systems and Controls**

Special attention is needed in respect of following areas of control.

- (a). Control Accounts
- (b). Accounts Receivable and Payable.
- ( c). Cash Collections and Disbursements
- (d). Vehicles
- (e). Internal Audit

**(S.C. MAYADUNNE)**  
**AUDITOR GENERAL**

## **Notes On Comments Regarding Accounts**

2-3-1-A

Steps will be taken to pay special attention to the shortage seen in the general ledger and existing stock and take a decision by the Board of Directors.

2-3-1-BA

According to the decision of the Board of Directors the deficit balance in the account allocated for pension gratuity will diminish by 31.12.2004.

### **Accounting Errors**

2-3-2-A

Negotiations are going on with the Ceylon Petroleum Corporation regarding a sum of Rs. 934,796.11 being interest calculated on arrears of debts, and requests too change been made for its waiver. On the basis of its outcome action will be taken to bring into account the amounts of interest in future years.

2-3-2-B

These short-falls have occurred due to lack of sufficient time to detect faults in accounts as the final account for the year of account ending on 31.12.2002 had to be presented before 28.02.2003. Steps will be taken to eliminate these shot-falls in future.

2-3-2-C

Instructions have been issued to present an internal audit report on this matter to the Board of Directors. Depending on decisions made there on, steps will be taken to remove the books in the year 2003.

2-3-2-D

The position has already returned to normal.

### **Un-Reconciled Administrative Account 2-3-3**

A Shortage of stocks occurring over a long time has been brought to the notice of the Board of Directors and steps will be taken to arrive at a decision on this matter.

### **Outstanding Payments and Receipts Account**

This matter will receive the special attention of the Board of Directors and a special course of action will be followed.

2-3-4-C

The report confirming the balances based on the lost of creditors and debtors furnished to us by external auditors, has been sent. Certificated confirming balances in current accounts of all banks have been dispatched to external auditors with copy to us.

Absences of audit evidence.

2-3-5

The register of payment of target to Eragama Factory amounting to Rs. 17,664 /= is attached to the voucher.

The heads of the Transport Division have been instructed to look into the matter of registration books of vehicles properly and report before 30.06.2003.

## **Non Compliance with Rules and Regulations and Management Decisions**

### 2-3-6-A

Instructions have been issued for the internal auditor to pay special attention and comply with rules and regulations.

### 2-3-6-B-C

Through internal, administrative system have been properly introduced for banking of daily marketing, the acute financial crisis within the institute has prevented proper operation of such systems for the last several years. Action will be taken to rectify this situation once when the financial position of the institute improves.

## **Financial Effects**

- 3-1 When compared with the previous years figures the growth of loss this year is Rs. Million 14.89 mainly due to the restriction of production in view of the existing deficits in marketing.
- 3-2 The main cause for this depression has been the restriction of production at factories due to accumulation of stocks of products of the corporation. Special measures have been taken to avoid this situation in the next year.
- 3-3 Necessary action on this matter will be taken immediately when the existing financial situation if the Corporation improves..
- 3-4 In main of the defects in the civil administration in this area it has not been possible to commence production at this factory.

## **Economically Unrealized Transactions**

### 3-6-A-B

Action taken on Ministry instructions.

### 3-6-C

Action has been taken to take necessary steps in consultation with State Banks.

- 3-8 The fixed cost of this Corporation is 70 % -75 % of total expenditure. Since production work of factors at Bangadeniya, Elayapattuwa, mahiyangana, Yatiyana and Bingiriya had to be restricted it was not possible to maintain budget control effectively.

H.k Bandula yodheeshwara  
Accountant