

**REPORT OF THE AUDITOR GENERAL ON ACCOUNT OF THE SRI LANKA CEMENT CORPORATION FOR THE YEAR ENDED 31 DECEMBER 2002 IN TERMS OF SECTION 14(2) © OF THE FINANCE ACT NO.38 OF 1971**

**2.3 COMMENTS ON ACCOUNTS**

**DIRECTORS COMMENTS**

**2:3:1 Accounting Deficiencies**

Following observations are made in audit

- (a) Steel sales valued at Rs.165,783 had been included in the Concrete Sales Account.

Purchase of steel was undertaken to fabricate reinforced concrete poles at our Concrete Yard in Urumpirai, Jaffna. These concrete products are being sold to the Sri Lanka Telecom and Ceylon Electricity Board for reconstruction work in Jaffna Peninsula.

- (b) A sum of Rs.145,900 spent by the Customers, as transport expenses had been deducted from the sale proceeds of cement. Therefore the value of sales of the Sales Centre, Jaffna had been understated by Rs.145,900.

Once these orders were completed and since there was an excess of steel they were sold to prevent deterioration in the Concrete Yard at Urumpirai. Therefore it has not been shown separately but included in the concrete sales.

This is the amount deducted from the sales amount due to difference in selling prices as per the distances from the port to our stores. There is no loss of profit or irregularities. You would no doubt agree that prices will vary in the various parts of Sri Lanka due to transport cost. This was such a situation.

**2:3:2 Unreconciled Control Accounts**

The balance of the employees' Loan Account amounted to Rs.6,521,692 whereas the balance according to the computer printouts on loan recoveries amounted to Rs.6,097,165.

We accept the opinion of the Auditor General regarding the loan ledger differences and we have already taken action to rectify this differences.

**2:3:3 Accounts Receivable and Payable**

The following observations are made in audit

- (a) Creditors balances aggregating Rs.14,955,360 representing 47 percent of the total creditors balances of Rs.31,820,980 had been outstanding for over 05 years.
- (b) Confirmations had not been obtained for 52% of debtor balances aggregating Rs.103,414,792 representing 10 percent of debtors as at the date of the balance sheet and 43 creditors balances aggregating Rs.31,820,980 representing 10 percent of the creditors as at the date of the balance sheet.

There are 47% of creditors and 52% debtors where we are unable to collect or settle as they are lying for a long period since the conversion of Sri Lanka Cement Corporation's Units of Puttalam factory, Ruhunu factory and Mattakuliya factory. Even we don't have proper documentation for these items. But we have already sought the assistance of Public Enterprise Division of the Treasury to settle this long dues and clean up on balance sheet.

**2:3:4 Lack of evidence for Audit**

Fixed assets valued at Rs.3,591,357 Inventory goods valued at Rs.9,969,948 other net assets valued at Rs.228,578,815, Debtors and Deposits amounting to Rs.103,414,792, Creditors and Payables amounting Rs.31,820,920 and payables amounting to Rs.32,093 could not be satisfactorily vouched or accepted in audit due to the non-availability of Registers of Fixed Assets, Board of Survey Reports and detailed schedules. Further, the Corporation had failed to furnish to audit the Debit Notes relating to the cancellation of 22 sales memos in respect of sale of 17,201 cement bags valued at Rs.7,629,440.

**Fixed Asset – Rs.3,591,357/=**

The Fixed Assets Register is available with us and the Board of Survey for the year 2002 also is completed now.

**Inventory - Rs.9,969,948/=**

The list of details are available with us and it is included in the Board of Survey also.

**Other Net Assets – Rs.228,578,815/=**

This is a valuation of asset in the Kankesanthurai Cement Factory. Since the closure of the factory in June 1990 as a result of the war, nobody from either the Corporation or Auditor General's Department has gone into the factory to verify the assets for the past 13 years.

During the past 13 years control of the factory premises changed hands between the Army and LTTE. Therefore we are unable to come to a conclusion whether the factory and its assets have been damaged during the war. We might mention that this factory is presently in the "High Security Zone" and the army is not permitting any visitors. Therefore we are unable to produce the details of these net assets.

2:3:4

**Creditors & Debtors**

Creditors - Rs.31,800,980/=

Debtors - Rs.103,414,792/=

They are outstanding for a very long period.

We are in a position to submit the schedule and details.

**22 Nos. cancelled sales Memos**

The sales memos mentioned in the audit queries as cancelled are true, due to the changes in unit prices. But the goods Issued against the memos were not returned and there was not necessitated to have the credit notes. It happened that we have issued and invoiced the cement at prices mentioned in the cancelled memos and then the competitors, had reduced their prices below than our invoiced prices. Our dealers had made complaints to us about the competitors under cutting and management had appointed a committee to investigate the situation. With the recommendation of the said committee the earlier invoices were cancelled and the new invoices had been placed with the new prices. We have adjusted our records as well as the ledger entries to suit the above changes.

**2:3:5 Non-compliance with Laws, Rules, Regulations and Management Decisions.**

The following instances of non-compliance were observed in audit.

<u>Reference to Laws, Rules, Regulations, etc.</u>	<u>Particulars</u>	
(a) <b>Finance Act, No.38 of 1971 Section 10 (5)</b>	Net surplus amounting to Rs.551,537,908 had not been credited to the consolidated fund.	This is brought forward net profit balance since the origination of the factory. This is only a book entry to correspond our investment in Lanka Cement Ltd. and the loans of the Lanka Cement Ltd. Hence, there is no possibility to credit to the consolidated fund.
(b) Public Finance Circular No.PF/PE/14 of 24 February 2002 Paragraph IV	Two mobile phone valued at Rs.26,600 had been purchased and a sum of Rs.7,389 had been paid as settlement of bills of those phones.	These two phones were purchased for the use of Working Director and General Manager for contactability with the approval of the Board. Our Chairman had not been provided with an official cellular phone and is using his private mobile phone. Bills are being paid by the Corporation as per the approval of the Board of Directors to a fixed upper limit.

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

#### **3:1 Financial Results**

- (a) Working of the Corporation for the year under review had resulted in a pre-tax net profit of Rs.7.84 million as compared with a corresponding pre-tax net profit of Rs.16.74 million for the preceding year thus indicating a deterioration of Rs.8.89 million in the financial results. This can be analysed as an adverse variance of Rs.2.77 million in the income and an adverse variance of Rs.6.12 million in the expenditure of the Corporation.

Adverse variance in income and expenditure have experienced in year 2002 due to reduction in interest rates on our investments and origination of new income generating activities such as sale of cement in Colombo and import of cement from India respectively. We hope this will create favourable variance in the year 2003.

#### **3.2 Uneconomic Transactions**

Following observations are made in audit.

- (a) Ten motor vehicles purchased in 1990 for Rs.39,140,371 under the Emergency Rehabilitation and Reconstruction Project and shown in the balance sheet had been handed over to the Puttalam Cement Company Limited.

The Corporation had failed to recover the value of 01 Dump truck, 01 tractor, 01 trailer and 04 motor cycles out of the above, valued 9,229,614.

The Puttalam Cement Company had refused to pay hire charges amounting to Rs.2,880,000 as 03 dump tracks were not in working condition and the Corporation had not taken any action in that connection.

The amount is shown in the debtors account as receivable from Puttalam Cement Company Ltd is on dispute because in 1996, 1997, we had made a claim (debit notes) for all 4 dumpers but we had been paid only one dumper and informed the others were not in running condition. Still they pay only one dumper and others are parked aside Puttalam factory premises without operating. We will take action to settle this dispute with the assistance of our Board.

- 3:2** (b) Two motor vehicles had been used for traveling by using 1095 litres of fuel valued at Rs.40,317 over and above the authorized limit.
- c) A sum of Rs.459, 965 had been spent to repair the motor vehicles of the Corporation without following the tender procedure.
- d) Action had not been taken for the recovery of loan balances of Rs.499,543 at the beginning of the year and the loans granted during the year amounting to Rs.350,000
- e) It was observed that contrary to the objectives of the Corporation expenditure had been incurred out of an advance of Rs.20,000 granted to meet loading and unloading charges.

Fuel had been pumped to vehicles over approved limits because these vehicles had gone to Jaffna, Kurunagala, Vavuniya and Mannar to promote the sales of concrete products and cement in these areas.

Quotations has been obtained for tinkering, painting, seat cushion work, L.P.Gas convert work and tyre replacement. These documents are with Chief Supplies Officer. But for engine repairs, suspension repairs and any other urgent repairs, we send to the registered garage for repairs.. If a vehicle is dismantled, then it is not possible to get quotations from other garages for repairs. The list of registered garages are maintained.

This is a long standing balance since the conversion of the SLCC in 1993. This will be verified with the consultation of the line Ministry and the Public Enterprise division of the Treasury in the near future. All the year 2002 advances were settled before the end of the year.

These Rs.20,000 is given to Officer in Charge of Sales Unit of Colombo to pay the loading and unloading charges of cement bags to the temporary labours who were hired as usual.

### **3.3 Idle Assets**

Spare parts for plant, machinery and heavy motor vehicles of the Kankesan Cement Factory valued at Rs.9,989,948 had been imported during the year 1990. In view of the situation prevailing in the North, those items had been lying idle at the Puttalam Cement Factory since then.

These items are now neither wanted in Kankesanthurai nor in Puttalam.

### **3.4 Transaction not supported by Adequate Authority**

A sum of Rs.808,437 had been paid during the year under review to the employees of the Corporation for unavailed medical leave. However, the requisite approval in terms of the Public Enterprises Circular No.95 of 14 February 1994 had not been obtained.

The unavailed medical leave payment was made as per Para (d) of the Management Service Circular No.17 of 3<sup>rd</sup> December 2002.

### **3:5 Transactions of a contentious Nature**

Various incentive allowances amounting to Rs.2,816,124 had been paid by the Corporation based on the times of attendance marked by the officers. The following observations are made in audit in view of the unsatisfactory maintenance of the time card machines and the accuracy of the computation of the allowances.

- (a) Time card machines had not been maintained properly.
- (b) Existence of differences between the times marked by the officers and those marked by the machines.
- © Executive officers signing on the time card which were allocated for non-executive officers.

Time recorders are more than 15 years old and they break down frequently. Due to financial constraints, action was not taken to purchase a new one. If the Time recorder cannot be permanently repaired action will be taken to introduce a Signature Register book.

The difference observed were due irregular mechanical condition and control is exercised as much as possible in checking the signature sheet by an Executive.

Occasionally, Executives have marked their signature in the Time recorder at the Ground floor when there were delays occurred in the movement of lifts carrying employees.

Question of allowances paid, does not arises as explanation is given above as to accuracy of time arrived and departure of Time recorder.

**3:6 Estimated Losses**

- (a) A sum of Rs.18,135 had been paid in the settlement of a bill of a telephone not belonging to the Corporation.
- (b) The reimbursement of salaries and allowances paid out of the funds of the Corporation to the officers of the Corporation released to the following institutions had not been obtained.

<u>Institution</u>	<u>Amount</u> Rs.
Ministry of Industries	247,956
National Equipment and Machinery Organization	702,643
National Housing Development Authority	500,524
	<hr/> <b><u>1,451,123</u></b>

These telephone bills are settled as per the approval of the Board of Directors meeting held on 27.08.2002 as per minute No.406.

Release of employees were done on the instructions of the Ministry Secretary.

We have made several effort to collect these dues from NEMO. We will continue our actions to collect the dues from them.

We will take action to collect these dues from NHDA as we done earlier.

**3:7 Identified Losses**

The following identified losses were observed.

- (a) A sum of Rs.1,047,709 paid to the Sri Lanka Customs during the year under review being demurrage for the delay of clearance in terms of the Court case No.53792 dated 29 September 1997.
- (b) The Corporation had cancelled 22 sales memos relating to the sale of 17201 bags of cement valued at Rs.7,629,440 for which goods issued to the customers. But the Corporation had not taken action to prepare the Debit Notes relating to the cancellations.
- © The Corporation had paid Rs.490,126 to the employees of the Concrete Project Unit, Jaffna as an allowance based on the production. The monthly production and the method of computation had not been made available for audit. No provision had been made in the budget for this payment. Action had also not been taken to obtain the Treasury approval in terms of the Department of Public Enterprises Circular No.95.

This is not a demurrage payment. This was excise duty payment during the early 90's. As per the order of the Courts this payment was made to Customs in the Year 2002.

The sales memos mentioned in the audit queries as cancelled are true, due to the changes in unit prices. But the goods Issued against the memos were not returned and there was not necessitated to have the credit notes. It happened that we have issued and invoiced the cement at prices mentioned in the cancelled memos and then the competitors, had reduced their prices below than our invoiced prices. Our dealers had made complaints to us about the competitors under cutting and management had appointed a committee to investigate the situation. With the recommendation of the said committee the earlier invoices were cancelled and the new invoices had been placed with the new prices. We have adjusted our records as well as the ledger entries to suit the above changes.

The incentive payment to the workers in the concrete division is made to induce to get more production in a day to meet the requirements, (order from Sri Lanka Telecom.) of the supply to the SLT in a stipulate period. This incentive payment was analysed by the committee of the managers (G.M., Accountant and Engineer) and recommended to the Chairman for implementation as the scheme was benefited to the Corporation.

**3:8 Motor Vehicle Utilization**

- (a) A motor car, a van, and four motor cycles belonging to the Corporation were physically not existence over a long period. It was observed that the Board had not taken any meaningful steps for the recovery of those vehicles.
- (b) A lorry had been lying in a garage over a long period and no action had been taken for repair or sell the lorry.
- © Four earth moving trucks, 2 tractors and trailers and 4 motor cycles had been given on hire to the Puttalam Cement Company Limited, without being used by the Corporation.
- (d) An ambulance, 2 motor cars and 3 motor cycles belonging to the Corporation had been used by the other Government Institutions and Lanka Cement Limited.

Only one Pick-up is given to the Ministry as per the instruction of the Secretary of the Ministry and one motor cycle is in the custody of an outside who was the former line ministry driver and the legal action is in progress. Others are settled.

The lorry has been disposed.

Our Kankesan Cement Factory is in defunctive situation and it is not possible to us to utilize those heavy earth moving equipments other than the factory.

These vehicles are released on rental basis and rental income are received without any interruption.

### 3.9 **Budgetary Control**

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

Our main operations are carried out in Jaffna and the budgets were prepared based on these Jaffna operations. But due to the prevailing situations we were unable to attain the estimated tasks. This will be meaningful in future period at the present peace progress situation in the North.

## 4. **System and Controls**

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

- (a) Daily Running Charts
- (b) Fixed Assets
- © Stocks and Stores
- (d) Advances and Loans
- (e) Budget

Appreciating Auditor General's comments and accordingly some corrective action has been taken.

We sincerely appreciate the valuable suggestions of the Auditor General.

# **SRI LANKA CEMENT CORPORATION**

## **REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2002**

### **1.0 BACKGROUND**

Sri Lanka Cement Corporation is the pioneer in Cement Industry in Sri Lanka.

The Cement Factory at Kankesanthurai which was established in 1950 under the Department of Industries was converted to a Public Corporation in 1956 under the provisions of the Government Sponsored Corporations Act No.19 of 1955 and named Kankesan Cement Works.

On 1<sup>st</sup> January 1959 the Corporation was reconstituted as Ceylon Cement Corporation under the Industrial Corporations Act No. 49 of 1957.

In the year 1980 the name was changed to “Sri Lanka Cement Corporation” by a Gazette notification. This Corporation which functioned under the Ministry of Industries and Scientific affairs was brought under the purview of the Ministry of Local Government, Housing & Construction from 1<sup>st</sup> February 1985. Since 19<sup>th</sup> June 1997 the Management of the Corporation is under the Ministry of Industrial Development.

The Corporation had invested Rs.1,083,618,910/= in the Lanka Cement Limited and holds 69.63% of the Share Capital. The share value has risen to its investment value after a decade period in the beginning of the Year 2002 and appreciated the investment value by Rs.271 Mn in the end of the year 2002.

Sri Lanka Cement Corporation also own 320,000 ordinary shares of Rs.10/= each in the Mahaweli Marine Cement Company Limited, and benefited by a Bonus issue of one new ordinary share for every two shares held by the Corporation as at 31<sup>st</sup> December 1995. The Corporation now owns 480,000 ordinary shares in MMCL which is 10% of the total share holding.

With the peoplization of Puttalam Cement Works and Ruhunu Cement Works and transfer of ownership of Paper Bags Unit at Mattakuliya to the General Treasury the Sri Lanka Cement Corporation is only left with the Kankesan Cement Works which is also not in operation since June 1990 due to security situation in the North. Although the Treasury paid the salaries of the lay-by employees of the Kankesan Cement Works upto March 2001, it ceased to pay and since April 2001 the heavy burden has fallen on the Corporation to fork out the funds. However, we hope the Treasury will reimburse this amount of over Rs.40 Million, which we maintain in our ledger account.

However, during the year 2002 the Corporation continued its effort to recommence the production of cement by attempting to commission the plant at KCW in stages. Several steps were taken in this regard such as feasibility studies and formulation of project reports and getting assistance of the RRAN to attend to essential and minimum repairs to avoid further deterioration of machinery and equipment of the factory, but the efforts failed.

At the same time due to the uncertainty of the future operation, the Government had introduced a Voluntary Retirement Scheme and allocated a sum of Rs.49.18 Million to the 173 lay-by employees and it is in progress now. 12 employees have already submitted their applications for this scheme in the latter part of the year.

## **2.0 PRESENT POSITION**

### **a) Sale of Cement**

The sale of cement which was started an activity to find gainful employment to a limited number of idling staff during the last quarter of the year 1996, has been able to ensure meeting a considerable portion of the consumer demand for cement in the Jaffna Peninsula and also stabilising and maintaining a competitive price. The average sales per month since then had been around 500 MT. The total sales revenue earned by the Sales Unit during the year 2002 has been Rs.43.06 Million .

The Corporation also started a small scale of Sales Unit in the year 1998 at Vavuniya which is still functioning as a cost centre. This Unit has earned a sales revenue of Rs.4.76 Million in the year 2002

We have re-introduced our “Kankesan” brand in the cement market during the middle part of the year 2002.

### **b) Manufacturing & selling of Concrete products**

The Corporation also started a Concrete production at Urumpirai in October 1997. The Unit has been mainly engage in production of RC Poles to Ceylon Electricity Board and Telegraph poles to Sri Lanka Telecom and supplies made to CEB and Sri Lanka Telecom during the year 2002. In addition concrete blocks, beams, pavement slabs and fence posts were produced and sold to Building Department, Road Development Authority, University of Jaffna and the general public. This Unit has generated a sales revenue of Rs.16.4 Million in the year 2002.

These activities having found gainful employment for 146 employees , out of the 307 work forces not only have been able to reduce the burden by more than one million per month towards the salary bill of KCW employees but also had ensured an operating profit of Rs.3.86 Million during the year 2002.

The management has taken steps to improve these activities with the expectation of the on going peace process in the country. Also we have organized a Sales Unit in Colombo for our “Kankesan” brand cement since July 2002 and the sales are gradually improving in the competitive market. During this 6 months period of the year 2002, we have received a sales revenue of Rs.13.92 Mn. We hope we will perform better in the year 2003.

### **3.0 PROFITABILITY**

The Corporation earned the income of Rs.34.79 million including of operating profit of Rs.3.86 million in the year 2002. The sources of income include lease of land of Aruvakalu and Colpetty to Puttalam Cement Company Ltd and the Police Department respectively, rental earned through leased equipment to PCCL, and sales of cement in Jaffna, Vavuniya and Colombo and concrete products in Jaffna. The profit for the year was Rs.7.841 Million.

### **4.0 FUTURE ROLE OF SRI LANKA CEMENT CORPORATION**

The Sri Lanka Cement Corporation is not presently engaged in production of cement due to the temporary closure of the factory at Kankasanturai, which is the only factory owned by SLCC. However, prospects for recommencing the production of cement by KCW, in the immediate future is difficult to forecast.

The main responsibility of the Corporation is to ensure that the recommencing of the Kankesan Cement Works. In this regard several efforts have been made over the years wherein possibilities to recommence production have been comprehensively studied. Necessary reports have been forwarded and found to be feasible to be implemented provided the security clearance is assured.

It has also been proposed that Kankesan Cement Works could be re commissioned in two stages.

- i. Recommence clinker grinding and packing of cement at a cost of Rs.165 Million, based on a report prepared in 2002.
- ii. Complete recommencing of production line at a cost of around Rs.2 Billion.

In addition as the Cement Industry is a vital component of the economy and particularly of the construction sector the Corporation is expected to play an important role in regard to monitoring the production and supply of cement in the country by mainly facilitating the following:

- i) Availability of quality cement in adequate quantity at reasonable prices to meet the country's requirements.
- ii) In keeping the Line Ministries informed of the prices of locally produced and imported cements with the necessary observations thereon.

- iii) Providing information on quality standards of locally produced cement as well as imported cement.
- iv) Maintaining a Data Bank of locally produced and imported cement and demand and supply, and functioning as an advisory body to the Ministry of Industrial Development on matters related to the Cement Industry.
- v) Research on introduction of alternative types of cement using local raw materials.

## **5.0 APPRECIATIONS**

The Board of Directors sincerely thank the Honorable Minister of Enterprise Development Industrial Policy and Investment Promotion and the Honorable Minister of Industries for the guidance given to the SLCC, officials of the Line Ministries, General Treasury , Department of Public Finance, other Government Institutions and Cement Manufacturing Organizations for their co-operation given to the SLCC in 2002.

The Board of Directors also wishes to record its appreciation for the services rendered by the employees of the Sri Lanka Cement Corporation.

# **SRI LANKA CEMENT CORPORATION**

## **ACCOUNTING POLICIES**

### **01. GENERAL ACCOUNTING POLICIES**

*The Corporation accounting policies are in accordance with the generally accepted accounting principles. No adjustments has been made for inflationary factors affecting the Accounts.*

### **02. CONVERSION OF FOREIGN EXCHANGE**

*All foreign exchange transactions are converted at the rate of exchange prevailing at the time transactions were effected.*

### **03. ASSETS AND BASIS OF THEIR VALUATION**

#### **1.0 Fixed Assets and Depreciation**

*Fixed Assets are stated at cost or valuation less aggregate depreciation.*

#### **1.1 Depreciation**

*Depreciation is provided on original cost or at value on a straight-line basis and is calculated to write off assets over the estimated useful lives.*

*1.2 Depreciation is not provided for in the year of purchase of the assets.*

*1.3 No depreciation is provided on free hold land.*

*1.4 Rates at which depreciation is charges are as follows :*

<i>Building</i>	<i>6.67 %</i>
<i>Plant &amp; Machinery</i>	<i>12.5 %</i>
<i>Earth Moving &amp; Heavy Equipment</i>	<i>25.0 %</i>
<i>Motor vehicle</i>	<i>25.0 %</i>
<i>Loose Tools &amp; Movable Equipment</i>	<i>25.0 %</i>
<i>Fixture Fittings &amp; Furniture</i>	<i>25.0 %</i>
<i>Rail &amp; Roadways</i>	<i>10.0 %</i>

#### **1.5 Capitalization**

*Tools and Fixtures & Fittings below the value of Rs.10,000/= are not capitalized and instead charged to Profit & Loss account in the year of purchase.*

## **2.0 STOCK & WORK IN PROGRESS**

*Stock & Work in progress are valued at cost.*

## **3.0 DEBTORS**

*Trade and sundry debtors are shown at invoiced value less provisions for bad and doubtful debts.*

## **4.0 LIABILITIES AND PROVISIONS**

### **i. Provision for Gratuities**

*Full provision is made on account of gratuities that may fall due for payment under the payment of gratuities Act No.12 of 1983.*

### **ii. Contingent Liabilities**

*Provision is not made in the accounts for contingent liabilities which exist as at Balance Sheet date details of such contingencies are disclosed in the notes to the accounts.*

## **5.0 PROFIT & LOSSES**

### **i. Turn Over**

*The Turn over represents sales to customers and sales within the Corporation intended for internal consumption.*

### **ii. Profit after Taxation**

*The profit after tax of the Corporation is arrived at after :  
Providing for bad and doubtful debts, all known liabilities, stock adjustments and depreciation of fixed assets.*

*Charging all expenditure incurred in the running of the business and in maintaining the capital assets in a state of efficiency.*

*VET / br.*

## **CORPORATE INFORMATION**

**Registered Head Office**  
**Sri Lanka Cement Corporation**  
P.O. Box 1382  
No.130, W.A.D.Ramanayake Mawatha  
Colombo 2.

**Telephone Nos.:** 440201,440211,440212

**Fax No.** : 448866

**Telex No.** : 21498

### **FACTORY**

Kankesan Cement Works,  
Kankesanturai.

Telephone No. : KKS 26, 95

### **JAFFNA OFFICE & SALES UNIT**

65, Kannathiddy Road,  
Jaffna.

Telephone No. : 021 – 2239

### **CONCRETE PROJECT, JAFFNA**

Vemban Road,  
Urumpirai.

Telephone No. : 021- 2128

### **BANKERS**

People's Bank  
Bank of Ceylon.  
Commercial Bank of Ceylon Ltd.  
Hatton National Bank

### **AUDITORS**

The Auditor General

**Subsidiary Registered Head Office**  
**Lanka Cement Limited**  
7<sup>th</sup> Floor, S.E.C. Building  
130, W.A.D.Ramanayake Mawatha  
Colombo 2.

**Telephone Nos. :** 447746, 54158

### **FACTORY**

Keerimalai Road,  
Kankesanturai.

### **VAVUNIYA SALES UNIT, SLCC**

86, 1<sup>st</sup> Cross Street,  
Vavuniya.

### **COLOMBO SALES UNIT, SLCC**

457, Ferguson Road,  
Aluthmawatha,  
Mattakuliya.

## **SRI LANKA CEMENT CORPORATION**

*The Board of Management for the year under review consisted of the following Directors.*

- |     |                              |                         |   |                          |
|-----|------------------------------|-------------------------|---|--------------------------|
| 01. | <i>Mr.Upali Wijeyesekera</i> | <i>Chairman</i>         | - | <i>w.e.f. 05.03.2002</i> |
| 02. | <i>Mr.S.S.Gunawardena</i>    | <i>Working Director</i> | - | <i>w.e.f. 04.03.2002</i> |
| 03. | <i>Mr.E.A.Arumugam</i>       | <i>Director</i>         | - | <i>w.e.f. 14.02.2002</i> |
| 04. | <i>Mr.Saman Thilekeratne</i> | <i>Director</i>         | - | <i>w.e.f. 06.03.2002</i> |
| 05. | <i>Mr.Pradheep Randiwela</i> | <i>Director</i>         | - | <i>w.e.f. 06.03.2002</i> |
| 06. | <i>Mr.Anil Koswatte</i>      | <i>Director</i>         | - | <i>w.e.f. 19.03.2002</i> |

## **SENIOR MANAGEMENT COMMITTEE**

- |     |                            |                               |   |                                   |
|-----|----------------------------|-------------------------------|---|-----------------------------------|
| 01. | <i>Mr.G.L.S.Senadheera</i> | <i>General Manager</i>        | - | <i>Resigned on<br/>31.08.2002</i> |
| 02. | <i>Mr.V.E.Thavakumaran</i> | <i>Acting Finance Manager</i> |   |                                   |

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**SRI LANKA CEMENT CORPORATION**

**HUMAN RESOURCES MANPOWER AS AT 31.12.2002**

<b><u>CATEGORY</u></b>	<b><u>K.C.W.</u></b>	<b><u>HEAD OFFICE</u></b>	<b><u>TOTAL</u></b>
<i>Executive</i>	14	06	20
<i>Clerical &amp; Allied</i>	16	27	43
<i>Technical &amp; Supervisory</i>	15	01	16
<i>Manual &amp; Operative</i>	222	06	228
<b>TOTAL</b>	267	40	307

## CASH FLOW STATEMENT

	<u>Year ended 31st December</u>			
	<u>2 0 0 2</u>		<u>2 0 0 1</u>	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b><u>Cash Flow from Operating activities</u></b>				
Net Operating Profit (Note 1)		199		3,692
Less : Profit on disposal of fixed asset		-		(839)
		199		2,853
<b><u>Adjustment for items not involving movement of cash</u></b>				
Depreciation	721		187	
Provision for retirement gratuity	1,480		845	
		2,201		1,032
		2,400		3,885
Prior period items	(3,995)		(7,550)	
Amount over depreciated in the proceeding years, adjusted for the year under review	-		-	
		(3,995)		(7,550)
Operating profit before change in items of working capital		(1,595)		(3,665)
<b><u>Changes in items of working capital</u></b>				
Stock - (Increase)	(581)		4,223	
Debtors and deposits (Increase) / Decrease	(17,552)		(7,464)	
Prepayments (Increase) / Decrease	(38)		29	
Accounts payable - Increase	(9,426)		11,650	
		(27,597)		8,438
		(29,192)		4,773

<b>Less :</b>			
Income tax paid	-		(72)
Gratuity paid	<u>(2,128)</u>	(2,128)	<u>(10,624)</u>
			(10,696)
Net cash (used in) generated from operating activities		(31,320)	(5,923)
<u>Cash flows from investing activities</u>			
Acquisition of fixed assets	(196)		(2,366)
Disposal of fixed assets	-		839
Dividends	-		480
Interest received on deposits	7,642		12,567
Investments in Treasury bills	<u>13,585</u>		<u>9,076</u>
Net cash generated from investing activities		21,031	20,596
<u>Cash Flows from financing activities</u>			
Interest paid	-		-
Grant from RRAN	-		-
Bank loans and overdrafts	-		-
Amount paid to Treasury	(1,000)		<u>(15,000)</u>
Net cash used in financing activities		(1,000)	(15,000)
Net (decrease) / increase in cash and cash equivalents		<b>(11,289)</b>	<b>(327)</b>
Cash and cash equivalents at beginning of the year (Note II)		<b>13,078</b>	13,404
Cash and cash equivalents at end of the year (Note II)		<b>1,789</b>	<b>13,077</b>

**Note : I**

	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net profit after interest but before tax	7,841		16,739	
<b>Add :</b>				
Interest paid	-	7,841	-	16,739
<b>Less :</b>				
Dividends	-		480	
Interest received on deposits	7,642		12,567	
		7,642		13,047
Profit on operating activities		199		3,692

**Note II****As at 1st January 2002****Rs. '000**

Cash at Bank (H.O)	13,330
Cash at Bank (KKS)	168
Cash in Hand	10
Bank overdraft	(430)
Cash and Cash equivalents at beginning of the year	<b>13,078</b>

**At at 31st December 2002****Rs. '000**

Cash at Bank (H.O)	1,626
Cash at Bank (KKS)	419
Cash in Hand	16
Bank overdraft	(272)
Cash and Cash equivalents at end of the year	<b>1,789</b>

VET/br.

(CashflowBd)







**SRI LANKA CEMENT CORPORATION**  
**BALANCE SHEET AS AT 31 DECEMBER 2002**

		2002	2002	2001	2001
		'000	'000	'000	'000
<b>ASSETS</b>					
<b>Non-Current assets</b>					
	<b>Note</b>				
Property, plant and equipment	<b>1</b>	3,591		4,117	
Other Net Assets of KCW	<b>2</b>	27,833		27,833	
Long term receivables	<b>3</b>	862,166		862,166	
Goodwill		-		-	
Manufacturing licences		-		-	
Investments in associates		-		-	
Investment in subsidiary & others	<b>4</b>	1,090,019		1,090,019	
Other financial assets		<u>50,363</u>		<u>63,948</u>	
			2,033,972		2,048,083
<b>Current assets</b>					
Inventories	<b>5</b>	23,584		23,003	
Trade and other receivables	<b>6</b>	103,668		86,116	
Prepayments		281		243	
Cash and cash equivalents	<b>7</b>	<u>2,062</u>		<u>13,508</u>	
			129,595		122,870
<b>Total assets</b>			<b><u><u>2,163,567</u></u></b>		<b><u><u>2,170,953</u></u></b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capita and reserves</b>					
Issued capital		984,003		984,003	
Reserves		9,997		9,997	
Accumulated profits/(Losses)		<u>551,537</u>		<u>547,692</u>	
			1,545,537		1,541,692
Minority interest		-		-	
Non-current liabilities	<b>8</b>	567,447		568,447	
Interest bearing borrowings		-		-	
Deffered tax		-		-	
Retirement benefit obligation		<u>18,490</u>		<u>19,137</u>	
			585,937		587,584
<b>Current liabilities</b>					
Trade and other payables	<b>9</b>	32,093		41,677	
Short-term borrowings		-		-	
Current portion of interest bearing borrowings		-		-	
Warranty provision		<u>-</u>		<u>-</u>	
			32,093		41,677
<b>Total equity and liabilities</b>			<b><u><u>2,163,567</u></u></b>		<b><u><u>2,170,953</u></u></b>

.....  
**Acting Finance Manager**

VET/br.

(Public Ent)

.....  
**Chairman**

.....  
**Director**

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002**

		<b>2002</b>	<b>2001</b>
		<b>' 000</b>	<b>' 000</b>
	<b>Note</b>		
<b>Revenue</b>	<b>10</b>	77,534	68,351
Cost of sales	<b>11</b>	<u>73,671</u>	<u>66,055</u>
Gross profit		3,863	2,296
Other operating income	<b>12</b>	30,925	35,267
Distribution costs	<b>13</b>	(6,783)	(3,312)
Administrative expenses	<b>14</b>	(18,393)	(16,124)
Other operating expenses	<b>15</b>	<u>(1,771)</u>	<u>(1,388)</u>
<b>Profit from operation</b>		7,841	16,739
Finance cost		-	
Income from associates		<u>-</u>	<u>-</u>
<b>Profit before tax</b>		7,841	16,739
Income tax expense		<u>-</u>	<u>(72)</u>
<b>Profit after tax</b>		7,841	16,667
Minority interest		<u>-</u>	<u>-</u>
<b>Net profit from ordinary activities</b>		<b>7,841</b>	<b>16,667</b>
<b>Extraordinary items</b>			
Grant from Trasury	<b>16</b>	14,323	79,743
Salaries, wages,EPF,ETF & prov.for Retirement Gratuity.		(12,654)	(23,625)
Vol.Retirement Compensation & Ret.Gratuity		(1,669)	(56,118)
<b>Net Profit for the period</b>		<u><b>7,841</b></u>	<u><b>16,667</b></u>

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**2001**      **Note (2) - Net asset of Kankesan Cement Works - Rs.27,833,017/=**      **2002**

This amount is appearing in our balance since 1991 as the difference between the total net asset of Kankesan Cement Works and the provision made for losses of asset of Kankesan Cement Works at the time.

<u>Rs.</u>		-	<u>Rs.</u>
228,578,815	Other Net asset of K.C.W.	-	228,578,815
200,745,798	Provision for loss of KCW asset	-	200,745,798
<b><u>27,833,017</u></b>			<b><u>27,833,017</u></b>

**Note (3) - Long term receivable - Rs.862,166,440/=**      **Rs.**

424,169,977	- Short term & Long term loan for formation of L.C.L.	-	424,169,977
391,940,654	- Internal transection between L.C.L. And SLCC until the closure of the both factories	-	391,940,654
46,031,000	- Receivable from Colombo Sack Makers Ltd. (Ex Paper Bags Unit of SLCC) due to the conversion of company (Treasury owned) in August 1993.	-	46,031,000
24,809	- Balance of the internal current account balance of Puttalam Cement Works at that time of conversion into Company	-	24,809
<b><u>862,166,440</u></b>			<b><u>862,166,440</u></b>

**Note (4) - Investment in subsidiaries & others -**  
**Rs.1,1090,018,910/=**      **Rs.**

1,083,618,910	- Subsidiary - Lanka Cement Ltd. (PLC) 69.63 % of share holding 108,361,891 numbers of shares @ Rs.10/=	-	1,083,618,910
4,800,000	- Lafarge Cement Co. ltd. (Pvt) 320,000 Nos. shares @ Rs.15/=	-	4,800,000
1,600,000	- 160,000 Nos. shares (Bonus issue in 1995)	-	1,600,000
			<u>6,400,000</u>
<b><u>1,090,018,910</u></b>			<b><u>1,090,018,910</u></b>

**Note (5) - Inventories - Rs.23,584,004**      **Rs.**

9,969,946	- Stock of spare parts belongs to Kankesan Cement Plant purchase in 1990 and stored at Puttalam Cement Works	-	9,969,948
12,727	- Stock of cement in Vavuniya	-	244,844
-	- Stock of cement in Colombo	-	1,069,642
999,125	- Stock of cement in Jaffna	-	174,276
877,351	- Stock of Raw material for concrete production	-	525,170
11,144,044	- Stock of finished goods of concrete poles etc.	-	11,600,122
<b><u>23,003,193</u></b>			<b><u>23,003,193</u></b>

<b><u>Note (6) - Trade and other receivable - Rs.103,668</u></b>		<b><u>Rs.</u></b>
29,948,901	Head Office	- 35,377,580
56,167,509	Kankesan Cement Works (Jaffna Branch)	- 68,290,172
<b><u>86,116,410</u></b>		<b><u>103,667,752</u></b>

<b><u>Note (7) - Cash and cash equalance - Rs.2,067,834</u></b>		<b><u>Rs.</u></b>
13,254,716	People's Bank Liberty Plaza	- 765,679
-	People's Bank , Vavuniya	- 517,012
-	People's Bank, Jaffna	- 384,203
75,837	Bank of Ceylon, Lake View	- 343,678
167,398	Commercial Bank- Jaffna	- 34,797
10,579	Cash In hand	- 16,465
<b><u>13,508,530</u></b>		<b><u>2,061,834</u></b>

<b><u>Note (8) - Non Current liabilities - Rs.567,447,136/=</u></b>		<b><u>Rs.</u></b>
493,426,190	- Treasury payable	- 492,426,190
74,020,946	- Grants received for improvement of SLCC before 1990	- 74,020,946
1,000,000	- Grant received from RAN for maintenance work of KCW.in 2000	- 1,000,000
<b><u>568,447,136</u></b>		<b><u>567,447,136</u></b>

<b><u>Note (9) - Trade &amp; other payables - Rs.32,092,993/=</u></b>		<b><u>Rs.</u></b>
18,316,242	Head Office payables	- 20,487,438
22,929,824	Kankesan Cement Works (Jaffna branch)	- 11,333,543
430,830	Bank draft (People's Bank, International Division)	- 272,012
<b><u>41,676,896</u></b>		<b><u>32,092,993</u></b>

<b><u>Note (10) - Revenue - Rs.77,787,138 /=</u></b>		<b><u>Rs.</u></b>
-	Sales of cement	- Colombo *
4,993,066		- Vavuniya
58,327,765		- Jaffna
<u>63,320,831</u>		-
5,029,924	Sale of concrete products	-
<b><u>68,350,755</u></b>		<b><u>77,534,178</u></b>

\* In the latter part of December 2002, Army Head Quarters made a request for 5,000 bags of cement and asked us to invoice in the year 2002. Accordingly, we invoiced @ Rs.354/= per bag for 5,000 bags and it is included in our Sales amount. But goods delivered in January and February 2003.

<b><u>Note (11) - Cost of Sales - Rs.73,924,278/=</u></b>			<b><u>Rs.</u></b>
-	Cost of sales of cement	- Colombo #	- 13,195,337
4,690,843		- Vavuniya	- 4,640,256
<u>54,076,665</u>		- Jaffna	- <u>40,924,737</u>
58,767,508			- 58,760,330
<u>5,287,340</u>	Manufacturing cost of concrete production		- <u>14,910,988</u>
<b><u>64,054,848</u></b>			<b><u>73,671,318</u></b>

# To meet the sales requirement of 5000 bags to Army Head Quarters, a purchase request was placed in the end of December 2002 for 5050 bags which was stock-in transit at the time of 31.12.2002, was taken to purchase account as well as closing stock to match the sales figure.

<b><u>Note (12) - Other operating income - Rs.30,924,635/=</u></b>			<b><u>Rs.</u></b>
183,928	Rental from hire of vehicle	-	178,000
90,000	Rent from premises	-	90,000
18,892,752	Lease of quarry land	-	19,553,897
839,285	Disposal of vehicles	-	-
12,567,934	Interest on deposits	-	7,642,148
1,432,800	Rental from heavy equipment to PCCL	-	1,432,800
350,002	Interest on employees loans	-	345,136
-	Unrealise profit on concrete products	-	1,151,309
480,000	Devidend MMCL	-	-
<u>430,570</u>	Sundries	-	<u>531,345</u>
<b><u>35,267,271</u></b>			<b><u>30,924,635</u></b>

<b><u>Note (13) - Distribution cost - Rs.6,782,967/=</u></b>			<b><u>Rs.</u></b>
-	Discount allowed on sales	-	15,770
-	Advertisement expenses	-	895,113
-	Expenses in Vavuniya Sales Unit including sales staff salaries	-	674,405
-	Expenses in Colombo Sales Unit	-	729,928
<u>3,311,799</u>	Expenses in Jaffna Sales Unit including sales staff salaries	-	<u>4,467,751</u>
<b><u>3,311,799</u></b>			<b><u>6,782,967</u></b>

<b><u>Note (14) - Administrative expenses - Rs.18,393,432/=</u></b>		<b><u>Rs.</u></b>
11,836,573	Head Office expenses	-
<u>4,287,431</u>	Jaffna Office expenses	-
<b>16,124,004</b>		<b><u>18,393,432</u></b>
<b>Administrative expenses including</b>		
10,497,611	- Staff salaries, staff benefits & Retirement Gratuity provision	-
100,000	- Audit fees provision	-
1,417,400	- Vehicle maintenance & running expenses	-
187,169	- Depreciation	-
		12,441,837
		100,000
		979,262
		721,153
<b>Monthly Emoluments made as</b>		
Rs. 20,001	- Rs. 25,000	01
Rs. 15,001	- Rs. 20,000	02
Rs. 10,001	- Rs. 15,000	10
Rs. 5,001	- Rs. 10,000	140
	< Rs. 5,000	154
<b><u>Note (15) - Other operating expenses - Rs.1,770,539/=</u></b>		<b><u>Rs.</u></b>
1,387,733	The operating expenses related to concrete manufacturing Unit including Concrete Unit indirect staff salaries	-
		<b>1,226,549</b>
<b><u>Note (16) - Extra ordinary items</u></b>		<b><u>Rs.</u></b>
23,625,000	Grant receivable from Treasury for the payment by lay-by employees as well as payment of compensation	-
		<b>14,323,305</b>
<b><u>Note (17) - Effect of change in Accounting policy</u></b>		
(Adjustment related to previous year Rs.3,995,768/=)		
1,848,823	- Lawyer fees case settlement expenses etc. in connection of the case of Italtrade International Vs Sri Lanka Cement Corporation	-
3,468,600	- Compensation to 18 employees regarding PCCL shares	-
	- Director General Customs for the payment of excise duty as per the Courts order.	-
		795,522
1,973,729	-Risk allowance payment to Jaffna employees	-
258,878	- Antony Peries - Ex-employees payment as per the Courts order	-
	- Sundries	-
<u>7,550,030</u>		<b><u>3,995,768</u></b>

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NOTE OF THE ACCOUNTS

**Note (1) - Fixed Asset Schedule**

Description	Original as at 01.01.2002 Rs.	Purchase during the year Rs.	Disposal during the year Rs.	Original value as at 31.12.2002 Rs.
Land & Building	2,895,360	-	-	2,895,360
Motor vehicles	14,429,385	-	-	14,429,385
Material handling equipment	56,305,195	-	-	56,305,195
Furniture, fixture & fitting	9,637,237	102,765	-	9,740,002
Tools & Mobile equipment	355,052	93,185	-	448,237
Commercial vehicles	2,151,853	-	-	2,151,853
	<b>85,774,082</b>	<b>195,950</b>	-	<b>85,970,032</b>
<b><u>Less: Accumulated depreciation</u></b>				
Land & Building	1,158,525	-		1,158,525
Motor vehicles	12,179,307	562,500		12,741,807
Material handling equipment	56,305,191	-		56,305,191
Furniture, fixture & fitting	9,512,894	65,468		9,578,362
Tools & Mobile equipment	349,760	93,185		442,945
Commercial vehicles	2,151,845	-		2,151,845
	<b>81,657,522</b>	<b>721,153</b>		<b>82,378,675</b>
<b>Net value as at 31.12.2002</b>				<b>3,591,357</b> =====

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**SRI LANKA CEMENT CORPORATION**

**STATEMENT OF RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR ENDED 31 DECEMBER 2002**

	<u>Note</u>	' 000 2002	' 000 2001
Surplus / (deficit) on revaluation of properties		-	-
Surplus / (deficit) on revaluation of investments		-	-
Exchange differences on translation of the financial statements of foreign entities		-	-
		<hr/>	<hr/>
<b>Net gains not recognised in the income statement</b>		-	-
<b>Net profit for the period</b>		7,841	16,667
		<hr/>	<hr/>
<b>Total recognised gains and losses</b>		<b>7,841</b>	<b>16,667</b>
		<hr/> <hr/>	<hr/> <hr/>
Effect of changes in accounting policy	<b>17</b>		(3,996)
			<hr/> <hr/>

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(Public Enterpriseformat)

## SRI LANKA CEMENT CORPORATION

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>Share Capital</u> ' 000	<u>Share Premium</u> ' 000	<u>Revaluation Reserve</u> ' 000	<u>Translation Reserve</u> ' 000	<u>Accumulated Profit</u> ' 000	<u>Total</u> ' 000
Balance at 31 December 2000	984,003	-	-	-	-	-
Changes in accounting policy	-	-	-	-	-	-
Restated balance	984,003	-	-	-	-	-
Surplus on revaluation of properties	-	-	-	-	-	-
Deficit on revaluation of investments	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-
Net gains and losses not recognised in the income statement	-	-	-	-	-	-
Net Profit for the period						
Dividends					-	-
Issue of Share-capital	-	-				-
<b>Balance at 31 December 2001</b>	<b>984,003</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Deficit on revaluation of properties			-			-
Surplus on revaluation of investments			-			-
Currency translation differences				-		-
Net gains and losses not recognised in the income statement			-	-		-
Net Profit for the period					-	-
Dividends						
Issue of Share-capital	-	-				
<b>Balance at 31 December 2002</b>	<b>984,003</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**SRI LANKA CEMENT CORPORATION**

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002**

	2002 ' 000	2001 ' 000
<b>Revenue</b>		
Other operating income		
Changes in inventories of finished goods and work in progress		
Work performed by the enterprise and capitalised		
Raw material and consumables used		
Staff Costs		
Depreciation and Administration expenses		
Other operating expenses		
Finance cost		
Income from associates		
<b>Profit before tax</b>		
Income tax expense	_____	_____
<b>Profit after tax</b>		
Minority interest	_____	_____
<b>Net profit or loss from ordinary activities</b>		
Extraordinary items		
<b>Net Profit for the period</b>	_____ =====	_____ =====

.....  
**ACTING FINANCE MANAGER**

VET/br.

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## **Report of the Audit & Management Committee**

In keeping with the provisions of Public Finance Circular No.PP/PE3 dated 19.11.1999 issued by the Secretary to the Treasury, the Audit & Management Committee submits this Progress Report.

The present members of the Audit & Management Committee are as follows:-

1. Mr.E.Arumugam - Chairman, Non-Executive Director,  
SLCC (Treasury Representative)
2. Mr.P.Randiwela - Member, Non Executive Director, SLCC

### **By Invitation**

- Mrs.W.A.Wijesoma - Actg. Internal Audit Officer

After the appointment of the new Board of Directors in April, 2002, the Audit & Management Committee sat at 08 meetings. Important findings and the course of action taken by the committee are as follows:-

### **1. Cement Stock**

#### Finding

The Committee observed that the opening stock of cement has been overstated by 85 bags. It was revealed that while transporting the cement bags to Jaffna by ship with the cement bags of other traders, the Cement Corporation had the opportunity to collect the fall off cement in the ship by sweepings, as its cement bags were unloaded last, at the Point Pedro Port. The sweepings were collected and packed which had not been included in accounts as stock. Customers who became aware of repacked bags containing sweepings, requested purchase of such cement bags at lower prices. This accounts for the variance.

#### Action Taken

The Committee recommended that any recurrence of this nature where sweepings are packed should be recorded and accounted separately. The Officer-in-Charge for sales assured that the future transactions will be properly accounted.

**2. Stock of R.C.Poles**

Finding

The Audit Committee noted a stock of R.C. Poles appearing in the Balance Sheet of the first Half Year of 2002 at a valuation of Rs.10 million. These R.C.Poles were made long ago on the order of Ceylon Electricity Board.

Action Taken

The Committee directed the Officer in Charge for Concrete Products to negotiate with the Electricity Board and report back to the Committee.

**3. Reconciliation of Accounts**

Finding

The Committee has drawn its attention to the Internal Auditor's report about the differences in figures appearing in Sales Ledger Control Account and Advance payment on Cement Sales Account due to clerical errors.

Action Taken

The Committee directed the Accountant to carry out regular reconciliation of statements and accounts to avoid these types of clerical errors.

**4. Return of Cement Sales**

Finding

The Committee noted that out of 1000 bags of cement delivered to MPCS, 775 bags were returned after a few months, the reason being that the same brand of cement was available in the market at very much lower prices. The Committee also noted as large quantities of cement were in the North during this time and as a consequence all the traders had to reduce selling prices.

Action Taken

The Committee advised the Board not to engaged ion trading activities, if losses are anticipated. The Acting Finance Manager was directed to submit monthly profit statement on Cement Trading activity to the Board.

5. **Amount due from Colombo Sack Makers Ltd.**

Finding

The Committee noted that a sum of Rs.46,031,000.00 due from Colombo Sack Makers Ltd. remained outstanding from the time of converting the Paper Back Unit of the Corporation into Government Owned Company.

Action Taken

The Committee requested the Acting Finance Manager to obtain a directive from the Treasury to make the necessary accounting entries, if this sum cannot be recoverable from Colombo Sack Makers Ltd.

6. **Dues from Lanka Cement Ltd.**

Finding

The Committee also noted that the following sums appeared in the Balance Sheet of the Corporation as at 30.06.2002 in respect of Lanka Cement Ltd.

a)	Loan to L.C.L.	-	Rs.424,169,977.00
b)	Current Assets – Lanka Cement Ltd.	-	Rs.391,940,654.00

Action Taken

The Committee directed the Acting Finance Manager to obtain confirmation of the above balance from Lanka Cement Ltd.

Sgd.  
Chairman,  
Audit & Management Committee  
Sri Lanka Cement Corporation.

## **NOTE OF THE AUDITOR GENERAL**

The Accounts of the Sri Lanka Cement Corporation for the year ended 31<sup>st</sup> December, 2002 were audited 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 Section 13 (1) of the Finance Act No.38 of 1971.

My observations on these accounts that should be published in terms of Section 14 (2) © of the Finance Act are contained in my report of even date addressed to the Chairman of the Corporation

(S.C.Mayadunne)  
Auditor General  
04 April 2003.

Auditor General's Department  
Colombo 07.

**Report of the Auditor General on the Accounts of the  
Sri Lanka Cement 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 Sri Lanka Cement Corporation for the year ended 31 December 2002 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 Section 13 (1) of the Finance Act No.38 of 1971 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 will be forwarded to the Chairman of the Corporation in due course

1 : 2 Scope of Audit

Audit opinion, comments and finding in this report are based on a review of the financial statements presented to audit and substantive tests 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 Standard, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examinations of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgements 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. 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 Restructuring of the Sri Lanka Cement Corporation and its Present Position

In terms of section 2 (2) (ii) of the Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act No.23 of 1987, Ruhunu Cement Factory of the Corporation had been converted into a public company during 1992.

The Puttalam Cement Factory and the Mattakuliya Paper Sack Factory of the Corporation had been converted into public companies in the names of Puttalam Cement Company Limited and Colombo Sack Makers Limited on 11 May, 1993 and 15 August 1993 respectively.

Accordingly, the Corporation had left with only the Kankesan Cement Factory and due to security situation in the North, it had not in operation since 1990.

Therefore, the work of the Corporation at present is limited to the maintenance of remaining assets, administration of its 307 employees and purchase and sale of cement. As the Kankesan Cement Factory had not in operation, its employees have been instructed to be present at the relevant Divisional Secretariats twice a week and sign in the register. Those employees continued to be paid their due salaries by the Corporation.

Thirteen employees had been retrenched by paying compensation amounting to Rs.1,668,760 during the year under review and 204 employees had been paid compensation amounting to Rs.57,786,315, during the previous and a sum of rs.12,654,545 had been paid during the year as salaries to the 307 remaining employees. And also the grant provided for this purpose by the General Treasury had been withheld during the year under review.

Having identified market potential that prevailed in Jaffna in view of high market prices for cement, the Corporation had decided to launch an income generating activity by providing cement at a reasonable price to Jaffna customers, with a view to reducing the dependability of General Treasury by asking for funds for the payment of salaries of the idle workers in Jaffna.

Accordingly two sales units were opened in Jaffna and Vavuniya and 137,141 bags of cement of 50 Kilogrammes per bag had been sold during the year under review through the 2 units. However, the operation had resulted in a loss of Rs.1,752,419.

Further to that, the Corporation had opened a Concrete Production Yard in Jaffna during the year, 1998. This unit had earned a net profit of Rs.512,528. The profit had been arrived at after an adjustment for an unrealized profit of Rs.1,151,309.

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 the financial statements have been satisfactorily prepared to present fairly in all material respects, the financial position of the Corporation as at 31 December 2003 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 5 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 profit of Rs.7,840,550 as compared with the corresponding net profit of Rs.16,739,442 for the preceding year.

2:3 Comments on Accounts

2:3:1 Accounting Deficiencies

- (a) Steel sales valued at Rs.165,783 had been included in the Concrete Sales Account.
- (b) A sum of Rs.145,900 spent by the Customers, as transport expenses had been deducted from the sale proceeds of cement. Therefore the value of sales of the Sales Centre, Jaffna had been understated by Rs.145,900.

2:3:2 Unreconciled Control Accounts

The balance of the Employees' Loan Account amounted to Rs.6,521,692 whereas the balance according to the computer printouts on loan recoveries amounted to Rs.6,0967,165.

2:3:3 Accounts Receivable and Payable

The following observations are made in audit.

- (a) Creditors balances aggregating Rs.14,955,360 representing 47 percent of the total creditors balances of Rs.31,820,980 had been outstanding for over 05 years.
- (b) Confirmations had not been obtained for 52% of debtor balances aggregating Rs.103,414,792 representing 100 percent of debtors as at the date of the balance sheet and 43 creditors balances aggregating Rs.31,820,980 representing 100 per cent of the creditors as at the date of the balance sheet.

2:3:4 Lack of Evidence for Audit

Fixed assets valued at Rs.3,591,357 Inventory goods valued at Rs.9,969,948, other net Assets valued at Rs.228,578,815, Debtors and Deposits amounting to Rs.103,414,792, Creditors and payables amounting to Rs.31,820,920 and payables amounting to Rs.32,093 could not be satisfactorily vouched or accepted in audit due to the non-availability of Registers of Fixed Assets, Board of Survey Reports and detailed schedules. Further, the Corporation had failed to furnish to audit the Debit Notes relating to the cancellation of 22 sales memos in respect of sale of 17,201 cement bags valued at Rs.7,629,440.

2:3:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed in audit.

Reference of Laws, Rules <u>Regulation, etc.</u>	<u>Particulars</u>
(a) <u>Finance Act, No.38 of 1971</u>	
Section 10 (5)	Net surplus amounting to Rs.551,587,908 Had not been credited to the consolidated Fund.
(b) Public Finance Circular No.PF/PE/14 of 24 February 2002 Paragraph IV	Two mobile phones valued at Rs.26,600 had been purchased and a sum of Rs.7,389 had been paid as settlement of bills of those phones.

3. Financial and Operating Review

3:1 Financial Results

(a) Working of the Corporation for the year under review had resulted in a pre-tax net profit of Rs.7.84 million as compared with a corresponding pre-tax net profit of Rs.16.74 million for the preceding year thus indicating a deterioration of Rs.8.89 million in the financial results. This can be analysed as an adverse variance of Rs.2.77 million in the income and an adverse variance of Rs.6.12 million in the expenditure of the Corporation.

3:2 Uneconomic Transactions

Following observations are made in audit.

- (a) Ten motor vehicles purchased in 1990 for Rs.39,140,371 under the Emergency Rehabilitation and Reconstruction Project and shown in the balance sheet had been handed over to the Puttalam Cement Company Limited.

The corporation had failed to recover the value of 01 Drum Truck, 01 Tractor, 01 Trailer and 04 Motor Cycles out of the above, valued at rs.9,229,614.

The Puttalam Cement Company had refused to pay hire charges amounting to Rs.2,880,600 as 03 Drum Trucks were not in working condition and the Corporation had not taken any action in that connection.

- (b) Two motor vehicles had been used for traveling by using 1095 litres of fuel valued at Rs.40,317 over and above the authorized limit.
- (c) A sum of Rs.459,965 had been spent to repair the motor vehicles of the Corporation without following the tender procedure.
- (d) Action had not been taken for the recovery of loan balances of Rs.499,453 at the beginning of the year and the loans granted during the year amounting to Rs.350,000.
- (e) It was observed that contrary to the objectives of the Corporation expenditure had been incurred out of an advance of Rs.20,000 granted to meet loading and unloading charges.

3:3 Idle Assets

Spare parts for plant, machinery and heavy motor vehicles of the Kankesan Cement Factory valued at Rs.9,989,948 had been imported during the year 1990. In view of the situation prevailing in the North, those items had been lying idle at the Puttalam Cement Factory since then.

3:4 Transactions not Supported by Adequate Authority

A sum of Rs.809,437 had been paid during the year under review to the employees of the Corporation for unavailed medical leave. However, the requisite approval in terms of the Public Enterprises Circular No.95 of 14 February 1994 had not been obtained.

3:5 Transactions of a Contentious Nature

Time Card Machines had not been maintained properly. Various incentive allowances amounting to rs.2,816,124 had been paid by the Corporation based on the times of attendance marked by the officers. The following observations are made in audit in view of he unsatisfactory maintenance of the time card machines and the accuracy of the computation of the allowances.

- (a) Time Card machines had not been maintained properly.
- (b) Existence of differences between the times marked by the officers and those marked by the machines.
- (c) Executive Officers signing on the time card which were allocated for non-executive officers.

3:6 Estimated Losses

- (a) A sum of Rs.18,135 had been paid in the settlement of a bill of a telephone not belonging to the Corporation.
- (b) The reimbursement of salaries and allowances paid out of the funds of the Corporation to the Officers of the Corporation released to the following institutions and not been obtained.

Institutions	Amount
Ministry of industries	Rs. 247,956
National Equipment and Machinery Organization	Rs. 702,643
National Housing Development Authority	<u>Rs. 500,524</u>
	<u>Rs. 1,451,123</u>

Contd. ..../7

3:7 Identified Losses

The following identified losses were observed.

- (a) A sum of Rs.1,047,709 paid to the Sri Lanka Customs during the year under review being demurrage for the delay Clearance in terms of the Court case No.53791 dated 29 September, 1997
- (b) The Corporation had cancelled 22 sales memos relating to the sale of 17201 bags of cement valued at Rs.7,629,440 for which goods issued to the customers. But the Corporation had not taken action to prepare the Debit Notes relating to the cancellations.
- (c) The Corporation had paid Rs.490,126 to the employees of the Concrete Project Unit, Jaffna as an allowance based on the production. The monthly production and the method of computation had not been made available for audit. No provision had been made in the budget for this payment. Action had also not been taken to obtain the treasury approval in terms of the Department of Public Enterprises Circular No.95

3:8 Motor Vehicle Utilization

- (a) A Motor car, a van and four motor cycles belonging to the Corporation were physically not in existence over a long period. It was observed that the Board had not taken any meaningful steps for the recovery of those vehicles.
- (b) A lorry had been lying in a garage over as long period and no action had been taken for repair or sell the lorry.
- (c) Four earth moving trucks, 2 tractors and trailers and 4 motor cycles had been given on hire to the Puttalam Cement Company Limited, without being used by the Corporation.
- (d) An ambulance, 2 motor cars and 3 motor cycles belonging to the Corporation had been used by other Government Institutions and Lanka Cement Company Limited.

3:9 Budgetary Control

Significant variations were observed between the budget and the actuals, 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 the following areas of control.

- (a) Daily Running Charts
- (b) Fixed Assets
- (c) Stocks and Stores
- (d) Advances and Loans
- (e) Budgets

Sgd. S.C.Mayadunne  
Auditor General