

Sri Lanka Cement Corporation.
P.O.Box-1382,
130, W.A.D.Ramanayake Mawatha,
Colombo-02.

31.12.2012

Secretary
Ministry of State Resources & Enterprise Development,
561/3, Elvitigala Mawatha,
Colombo 5.

Sir,

SRI LANKA CEMENT CORPORATION
ANNUAL REPORT & ACCOUNTS FOR THE YEAR, 2011

In terms of Section 30 (1) of the State Industrial Corporation, Act No.49 of 1957, I have pleasure in submitting the Report of the Board of Directors of the Corporation for the year, 2011 together with the following documents.

- (a) Financial Statements for the year, 2011
- (b) The Auditor General's Report
- and
- (c) Observations of the Board on (b) above.

Yours faithfully,

For and on behalf of the Board of Directors of the
SRI LANKA CEMENT CORPORATION



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CHAIRMAN

SRI LANKA CEMENT CORPORATION

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SRI LANKA CEMENT CORPORATION

REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2011

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 1st 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 1st February 1985. After that, since 19th June 1997 the Corporation was again under the Ministry of Industrial Development and still continuing as same until 2010 and vested under the Ministry of State Resources & Enterprises Development thereafter.

The Corporation had invested Rs.1,083,618,910/= in the Lanka Cement Limited in 1981 and holds 62.45% of the Share Capital. The par value of the share is Rs.10/=. This investment has not paid and return since it's inception. However, the share price has sharply increased during the year 2009 and 2010 due to the ending of the crises situation in the North. The maximum market price of the share has gone as Rs.34.75 and 2011 market price of the share has come down as Rs.26.20

Sri Lanka Cement Corporation also own 320,000 ordinary shares of Rs.10/= each in the Lafarge Mahaweli Cement Company Limited, and benefited by a Bonus issue of one new ordinary share for every two shares held by the Corporation as at 31st December, 1995. The Corporation now owns 480,000 ordinary shares in LMCCCL which is 10% of the total share holding. The Corporation has been benefited by a very good return (dividend) on this investment up to 1999. After that except in the year 2004, the Corporation has not received any dividends from LMCCCL.

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 up to March 2001, it ceased to pay since April 2001. The heavy burden fall on the Corporation to fork out the funds.

The Government had introduced a Voluntary Retirement Scheme in 2003 and 2005. There were 173 and 21 employees had left the Organization under this Voluntary Retirement Scheme in the respective years. The treasury granted Rs.49.18 Mn. and Rs.8.51 Mn. for the payment of Compensation.

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2.0 PRESENT POSITION

a) Sale of Cement

The Corporation's mission is to supply high quality cement at the lowest price to the ultimate consumer and this has been achieved by the sale of cement operation during the year 2009 as the Corporation has entered into the cement market in latter part of year 2008. During the year, 2009 the Corporation has imported 84,308 M.T. of cement from Pakistan and distributed the same to the market under the brand name of 'Kankesan'. During the year 2010, the Corporation has imported 36,260 M.T. of Ordinary Portland Cement from Pakistan under the brand name of 'Kankesan'. During the year, 2011 the Corporation has imported 58,352 M.T. of Ordinary Portland Cement from Pakistan.

It is to be noted that the entry of the Sri Lanka Cement Corporation to the cement market has had an impact and has shaken the monopoly of the private sector in the cement market that they have enjoyed all these days and forced them to reduce their prices to cater to maintain their market shares.

However, the sale of cement operation has not financially benefited to the Corporation as it has to face many obstacles from the competitors.

b) Manufacturing & Selling of Concrete Products

The Corporation also started a Concrete production Yard at Urumpirai in October 1997. The Unit has been mainly engaged in production of RC Poles for Ceylon Electricity Board and Telegraph poles for Sri Lanka Telecom. However, the production had been curtailed from mid of the year 2006 to early part year 2008

due to the prevailed situation that prevailed and non-availability of the raw materials supply.

There was full production in the year 2009 and produced 3,312 Nos. of Poles and supplied to Ceylon Electricity Board and Sri Lanka Telecom stock. In addition Concrete blocks, beams, pavement slabs and fence posts are supplied to Building Department, Road Development Authority, University of Jaffna and the General Public. There were full production in the year 2010 and produced 2,117 Nos. Concrete Poles and 4,505 Nos. Panthal Post and in the year 2011 also produced 1918 Nos. Concrete Poles and 1892 Panthal Post.

These activities have found gainful employment for 69 employees, also form the present strength of work force.

3.0 PROFITABILITY

The Corporation received a sale income of Rs.1.07 billion in the year, 2009. However, the operation was experienced loss to the Corporation due to uncontrollable factors. Further, the Corporation received income of Rs.28.8 Mn. as other operating income from the sources of lease rental, interest on deposits, etc.

In the year 2009, the Corporation has experienced a net loss of 79.03 Mn. including all it's operational and administrative expenses. In the year, 2010 the Corporation has received a Net Profit of Rs.5.074 Mn. after deducting Bank loan interest. In the year 2011 also Corporation has earned net Profit of Rs. 2.600 Mn.

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 are difficult to forecast.

The main responsibility of the Corporation is to ensure the recommencement 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 to the relevant authorities and found feasible for implementation provided the security clearance is assured.

Also the Management has initiated action to study the possibilities to put a new Packing Plant at a suitable area ensuring the supply of best quality and low price cement to the

nation. A proposal has been put forward to utilize the jungle land available in the area surrounding the Puttalam/Palavi Cement Factory for plantation of Cashew trees.

Another Project proposal has been originated on the land situated at 287, Galle Road, Colombo-03, which was obtained from the Police Department after 30 years and to construct a multi storey building by obtaining financial assistance from Banks. Construction of a 25 multi storey building with state of the art designing, Four levels of parking space and land scaping of the complex is proposed. Estimated Project cost is Rs.4,500 Bn.

5.0 APPRECIATIONS

The Board of Directors sincerely thank the Honorable Minister, State Resources & Enterprises Development for the directives given to the SLCC, Officials of the Line Ministry, General Treasury, Sri Lanka Standard Institution, Sri Lanka Ports Authority and State Banks, Other Government Institutions and Cement Manufacturing Organizations for their co-operation given to the SLCC in 2011.

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

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CORPORATE INFORMATION

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

Telephone Nos.: 2440201,2440211,2440212

Fax No. : 2448866

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

Telephone Nos. : 2447746, 2389703

FACTORY

Kankesan Cement Works,
Kankesanturai.

Telephone No. : KKS 26, 95

FACTORY

Keerimalai Road,
Kankesanturai.

CONCRETE PROJECT, JAFFNA

CEMENT STORES

Kankesan Cement Works,
Kankesanturai.

Telephone No. : 021 321 5340/41

472, Sri Sangarajah Mawatha,
Colombo.

Tel. : 0113030041, Fax : 0114923959

BANKERS

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

AUDITORS

The Auditor General
Colombo-07

SRI LANKA CEMENT CORPORATION

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

01.	Mr.Leslie Weeramantry	Chairman	-	Appointed on 06.10.2009
02.	Mr.S.J.Paranagama	Chairman	-	Appointed on 24.05.2010
03.	Mr.Jagath Narambedda	Working Director	-	Appointed on 26.05.2010
04.	Mrs.Asoka Kodithuwakku	Director	-	Appointed on 26.05.2010
05.	Mrs.W.J.Handapangoda	Director	-	Appointed on 08.06.2010
06.	Mr.K.K.Piyasena	Director	-	Appointed on 08.06.2010
07.	Mr.S.M.Piyatissa	Director	-	Appointed on 05.07.2010

08. Mr.Bandara Director - Appointed in 2010

SENIOR MANAGEMENT COMMITTEE

01.	Mr.S.Selvakumar	Accountant	Head Office
02.	Mrs.P.S.D.Fernando	Internal Audit Officer	Head Office
03.	Mr.P.Vimalathas	Asst. Engineer (Concrete Project)	Jaffna Office

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SRI LANKA CEMENT CORPORATION

HUMAN RESOURCES MANPOWER AS AT 31.12.2011

CATEGORY	Senior Management	Junior Management	Management Assistant	Primary Level	TOTAL
-----	-----	-----	-----	-----	-----
Head Office	02	02	13	09	26

Released to N.E.M.O	--	01	--	--	01
Jaffna Office	--	--	07	06	13
Concrete Project	--	--	02	27	29

TOTAL	02	03	22	42	69
=====					

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 have 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

3.1 Fixed Assets and Depreciation

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

3.2 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.

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

3.4 No depreciation is provided on free hold land.

3.5 Rates at which depreciation is charges are as follows :

Building	6.67 %
Plant & Machinery	12.5 %
Earth Moving & Heavy Equipment	25.0 %
Motor vehicle	25.0 %
Loose Tools & Movable Equipment	25.0 %
Fixture Fittings & Furniture	25.0 %
Rail & Roadways	10.0 %

3.6 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.

3.7 Investment

due Long term Investments in listed Company's shares are maintained at the Par Value/Cost to the fluctuation in the share prices during the year which is reported.

Short Term Investment is stipulated at the market value.

3.8 Stock & Work in Progress

Stock & Work in progress are valued at cost or net realizable value.

3.9 Debtors

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

4.0 LIABILITIES AND PROVISIONS

4.1 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.

4.2 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.

4.3 Short Term Liabilities

All payables, Import Bank Loans, Bank Overdraft Balances which are due within twelve months have been taken as Short Term Liabilities.

4.4 Long Term Liabilities

All the payables which are due over twelve months have been taken as Long Term Liabilities.

5.0 PROFIT & LOSSES

5.1 Turn Over

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

5.2 Cost of Sales

It is arrived the cost of importation including CIF Value, Custom's Duties, SLPA Charges, Shipping Liner Service Charges, Container Handling Charges, Transportation Cost, Loading & Unloading Cost, Holding Cost, Finance Charges, any loss due to damage or shortage and any other direct costs.

5.3 Expenses

All the indirect expenses in connection with administration, production, sales expenses incurred during the year which are paid and accrued.

5.4 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.

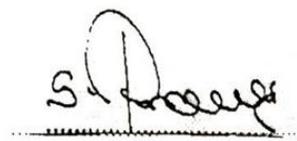
Charging all expenditure incurred in the running of the business and in maintaining the capital assets in a state of efficiency.

SRI LANKA CEMENT CORPORATION
BALANCE SHEET AS AT 31st DECEMBER 2011

	Note	2011 '000	2011 '000	2010 '000	2010 '000
ASSETS					
Non-Current assets					
Property, plant and equipment	1	550,705		543,939	
Long term receivables	2	757,224		757,224	
Investment in subsidiary & others	3	1,090,019		1,090,019	
Other financial assets		<u>25,526</u>		<u>68,123</u>	
			2,423,474		2,459,304
Current assets					
Inventories	4	20,532		28,689	
Trade and other receivables	5	76,972		119,074	
Prepayments		1,248		589	
Cash and cash equivalents	6	<u>14,071</u>	112,823	<u>9,762</u>	
					158,114
Total assets			2,536,297		2,617,418
EQUITY AND LIABILITIES					
Capital and Reserves					
Issued capital		966,972		966,972	
Reserves		9,997		9,997	
Revaluation reserve		536,119		536,119	
Accumulated profits/(Losses)		<u>372,864</u>		<u>372,219</u>	
			1,885,952		1,885,307
Minority interest				-	
Non-current liabilities	7	492,426		492,426	
Interest bearing borrowings				-	
Deferred tax				-	
Retirement benefit obligation		<u>18,919</u>		<u>18,783</u>	
			511,345		511,209
Current liabilities					
Trade and other payables	8	62,857		61,730	
Short-term borrowings				45,958	
Current portion of interest bearing borrowings		53,665		101,817	
Warranty provision		<u>22,478</u>	139,000	<u>11,398</u>	
					220,902
Total Equity and Liabilities			2,536,297		2,617,418


Accountant


Working Director


Chairman

SRI LANKA CEMENT CORPORATION

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 ' 000	2010 ' 000
Revenue	9	656,071	410,709
Cost of sales	10	656,676	406,508
Gross profit		(605)	4,201
Other operating income	11	35,623	34,846
Distribution costs	12	-	-
Administrative expenses	13	(28,423)	(29,131)
Other operating expenses	14	(3,995)	(4,842)
Profit from operation		2,600	5,074
Finance cost		-	-
Income from associates		-	-
Profit before tax		2,600	5,074
Income tax expense		-	-
Profit after tax		2,600	5,074
Minority interest		-	-
Net profit from ordinary activities		2,600	5,074
Extra-ordinary items			
Grant from Treasury		-	-
Salaries, wages,EPF,ETF &		-	-
Provision for Retirement Gratuity.		-	-
Vol.Retirement Compensation & Ret.Gratuity		-	-
		-	-
Net Profit/Loss for the period		2,600	5,074

SRI LANKA CEMENT CORPORATION

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31st DECEMBER 2011

	Capital Contributed '000	*Revaluation Reserves '000	General Reserves '000	Retained Profit '000
Balance as at 31.12.2006	966,972	-	9,997	460,342
This year (2007)	-	536,119	-	(22,323)
Adjustment related previous year	-	-	-	-
Balance as at 31.12.2007	966,972	536,119	9,997	438,019
This year (2008)	-	-	-	8,498
Adjustment related previous year	-	-	-	-
Balance as at 31.12.2008	966,972	536,119	9,997	446,517
This year (2009)	-	-	-	(79,373)
Adjustment related previous year	-	-	-	-
Balance as at 31.12.2009	966,972	536,119	9,997	367,144
This year (2010)	-	-	-	5,074
Adjustment related previous year	-	-	-	-
Balance as at 31.12.2010	966,972	536,119	9,997	372,218
This year (2011)	-	-	-	2,600
Adjustment related previous year	-	-	-	(1,954)
Balance as at 31.12.2011	966,972	536,119	9,997	372,864

SRI LANKA CEMENT CORPORATION

CASH FLOW STATEMENT - 2011

	Year ended 31st December			
	2 0 1 1		2 0 1 0	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash Flow from Operating activities				
Net Operating Profit (Note 1)		182		63
Adjustment for items not involving movement of cash				
Profit/Loss on disposal of fixed asset	-		-	
Depreciation	560		672	
Provision for Retirement Gratuity	<u>1,385</u>		<u>3,130</u>	
		1,945		3,802
Operating Profit/Loss before change in items of working capital		2,127		3,865
Changes in items of working capital				
Stock - (Increase)/Decrease	14,809		9,898	
Debtors and deposits (Increase) / Decrease	(76,971)		(44,341)	
Prepayments (Increase) / Decrease	1,247		244	
Accounts payable - Increase / (Decrease)	1,124		(1,631)	
Grants (-do-)	-		-	
		<u>(59,791)</u>		<u>(35,830)</u>
		(57,664)		(31,965)

Less :			
Income tax paid	-	-	
Gratuity paid	(1,249)	(5,063)	
		(1,249)	(5,063)
Net cash (used in) generated from operating activities		(58,913)	(35,423)
Cash flows from investing activities			
Acquisition of fixed assets	-	-	
Adjustment in Capital Accounts	-	-	
Disposal of fixed assets	-	-	
Dividends	-	-	
Interest received on deposits	2,418	5,011	
Investments in Treasury bills	(525)	(24,832)	
Net cash generated from investing activities		(644)	(19,821)
<u>Cash Flows from financing activities</u>			
Interest paid	10,236	16,006	
Grant from RRAN	-	-	
Bank loans and overdrafts	53,665	26,291	
Amount paid to Treasury	-	-	
Net cash used in financing activities		63,901	42,297
Net (decrease) / increase in cash and cash equivalents		9,729	-
Cash and cash equivalents at beginning of the year (Note II)		-	3,220
Cash and cash equivalents at end of the year (Note II)		14,071	9,727

Note-I	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net profit after interest but before tax	2,600		5,074	
Add :				
Interest paid	<u>-</u>		<u>-</u>	
		2,600		5,074
Less :				
Dividends	-		-	
Interest received on deposits	<u>(2,418)</u>		<u>5,011</u>	
		<u>(2,418)</u>		<u>(5,011)</u>
Profit on operating activities		182		63
Note II	At 31st December 2010			
Cash at Bank (H.O.)			9,415	
Cash at Bank (KKS)			312	
Cash in Hand			-	
Bank Overdraft			-	
Cash and Cash Equivalents at beginning of the year			9,727	
	At 31st December 2011			
Cash at Bank (H.O.)			13,818	
Cash at Bank (KKS)			253	
Cash in Hand			-	
Bank Overdraft			<u>-</u>	
Cash and Cash Equivalents at end of the year			14,071	
Note:				
This Cash Flow is prepared according to the requirement of SLAS 9 and depicted the indirect method.				

Note (1) - Fixed Asset Schedule

Description	Original as at 01.01.2011 Rs.	Purchase During the Year Rs.	Disposal During the Year Rs.	Original Value as at 31.12.2011 Rs.
Land & Building	538,003,481	-	-	538,003,481
Motor Vehicles	11,839,320	6,650,714	-	18,490,034
Furniture, fixture & fitting	4,560,440	656,336	-	5,216,776
Tools & Mobile equipment	1,052,393	20,930	-	1,073,323
Total	555,455,634	7,327,980	-	562,783,614
Less: Accumulated Depreciation				
Land & Building	207,421	20,742	-	228,163
Motor vehicles	7,425,650	147,813	-	7,573,463
Furniture, fixture & fitting	2,863,843	390,368	-	3,254,211
Tools & Mobile equipment	1,019,612	2,850	-	1,022,462
				-
				-
Total	11,516,526	561,773	-	12,078,299
Net value as at 31.12.2011				550,705,315

The forest land 221 acres situated at Palavi, Puttalam - It has been requested the Valuation Department to revalue the same and it will be included in the accounts once this valuation process is completed.

2010		2011
	Note (2) - Long Term Receivable - Rs.757,223,883/=	
424,169,977	Short term & Long term loan for formation of L.C.L	424,169,977
333,053,906	Internal transaction between L.C.L. And SLCC until the closure of the both factories	333,053,906
757,223,883		757,223,883
	Note (3) - Investment on Subsidiaries & Others - Rs.1,090,018,910/=	
	The market price of the share of the Lanka Cement Ltd. as at the balance sheet date was Rs.23.25. During the year 2011, the share price has gradually increased and the maximum share price was Rs.34/= during the year, 2011	
	Subsidiary - Lanka Cement Ltd. (PLC)	
1,083,618,910	62.45 % of share holding 108,361,891 numbers of shares @ Rs.10/=	1,083,618,910
	Lafarge Cement Co. Ltd. (Pvt)	
6,400,000	320,000 Nos. shares @ Rs.15/=	6,400,000
	160,000 Nos. shares (Bonus issue in 1995)	
1,090,018,910		1,090,018,910
	Note (4) - Inventories - Rs.20,531,525/=	
5,719,777	*Stock of spare parts belongs to Kankesan Cement Plant purchased in 1990 and stored at Puttalam Cement Works	5,719,777
-	Stock of cement empty bag	-
2,299,315	Stock of Raw material and Work in Progress for concrete production	5,349,307
2,010,966	Stock of finished goods of concrete poles etc.	9,424,700
18,658,915	Stock of Cement	37,741
28,688,973		20,531,525
	*The KCW Spare stocks are taken only available items and other missing items are written off from the balances.	
	Note (5) - Trade and other receivable - Rs.76,971,521/=	
105,590,150	Head Office	65,401,957
13,483,690	Kankesan Cement Works (Jaffna Branch)	11,569,564
119,073,840		76,971,521
	Note (6) - Cash and Cash Equivalence - Rs.14,071,116	
278,454	People's Bank, International Division	278,454
1,995,615	People's Bank Liberty Plaza	-
22,046	People's Bank , Vavuniya	22,046
312,068	People's Bank, Jaffna	-
-	Bank of Ceylon, Corporate Branch	11,388,824
7,119,108	Bank of Ceylon, Lake View	2,346,995
34,797	Commercial Bank- Union Place, Jaffna	34,797
9,762,088		14,071,116

2010				2011
	Note (7) - Non Current Liabilities - Rs.492,426,190/=			
492,426,190	Treasury payable			492,426,190
492,426,190				492,426,190
	Note (8) - Trade & Other Payables - Rs.62,854,684/=			
46,293,045	Head Office payables			46,069,327
15,436,521	Kankesan Cement Works (Jaffna branch)			16,785,357
61,729,566				62,854,684
	Note (9) - Revenue - Rs.656,071,402/=			
383,374,993	Sale of Cement	-	Colombo	649,210,889
-		-	Jaffna	-
27,334,174	Sale of concrete products	-	Jaffna	6,860,513
410,709,167				656,071,402
	Note (10) - Cost of Sales - Rs.656,675,864/=			
382,500,524	Cost of Sales of Cement	-	Colombo	644,387,464
24,007,089		-	Jaffna	
	Manufacturing cost of concrete production including Direct Staff Cost of Rs.10,736,115 Mn.			12,288,400
406,507,613				656,675,864
	Note (11) - Other Operating Income - Rs.35,623,397/=			
-	Rent from premises			-
22,855,842	Lease of quarry land			22,713,936
-	Disposal of vehicles/Fixed Assets			-
-	Disposal of Unserviceable items			-
5,011,917	Interest on deposits			2,418,587
-	Rental from heavy equipment to PCCL			-
261,261	Interest on employees loans			270,346
31,303	Sundries			756,697
-	Performance Bond forfeited			-
1,000,000	Furnace Oil			3,500,000
5,685,540	Mill Power Project			5,963,831
34,845,863				35,623,397

2010				2011
	Note (12) - Administrative Expenses - Rs.28,423,423/=			
24,986,153	Head Office expenses			22,888,256
4,144,872	Jaffna Office expenses			5,535,167
-	Levy paid to Treasury			-
29,131,025				28,423,423
	Administrative expenses including			
15,515,232	- Staff salaries, staff benefits & Retirement Gratuity provision			17,777,882
120,000	- Audit fees provision			120,000
1,609,091	- Vehicle maintenance & running expenses			2,464,309
671,817	- Depreciation			561,773
	Monthly Emoluments made as			
	Rs. 45,000 - Rs. 40,000			
	Rs. 40,000 - Rs. 35,000	-	2	
	Rs. 35,000 - Rs. 30,000	-	1	
	Rs. 30,000 - Rs. 25,000	-	27	
	Rs. 25,001 - Rs. 20,000	-	29	
	Rs. 20,000 - Rs. 15,000	-	4	
	Rs. 15,000 - Rs. 10,000	-	6	
	Total		69	
	Note (13) - Other Operating Expenses - Rs.3,995,281			
4,841,805	The operating expenses related to concrete manufacturing Unit including Concrete Unit indirect staff salaries of Rs.399,5281			3,995,281
-	Note (14) - Extra Ordinary Items - Nil			-
-	Note (15) - The currency used in preparation of this report is Sri Lankan Rupees (SLR)			-
	Note (16) - The Gratuity provision made as follows:-			
20,806,963	Opening Balance of Provision for Retirement Gratuity			18,783,093
(3,458,813)	Payment made to 03 employees during the year 2011			1,249,433
17,348,150	Balance provision available as at 31.12.2011			17,533,660
18,783,093	Provision entitlement for 62 employees as at 31.12.2011			18,918,853
(1,434,943)	Therefore provision made in year 2011			(1,385,193)
	This amount which is lying in provision for retirement gratuity is deposited in the Treasury Bills.			

**Report of the Auditor General on the Financial Statements of the Sri Lanka Cement Corporation
for the year ended 31 December 2011 in terms of Section 14(2)(C) of the Finance Act No.38 of 1971**

The audit of financial statements of the Sri Lanka Cement Corporation for the year ended 31 December 2011 comprising the balance sheet as at 31 December 2011 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 of and the State Industrial Corporations Act, No. 49 of 1957. My comments and 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 furnished to the Chairman of the Corporation on 16 May 2012.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub – sections (3 and 4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Cement Corporation as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2:2:1 Best Accounting Practices

Non-compliances with Sri Lanka Accounting Standards

The following observations are made.

- (a) Standards 3 and 5 Three tractors, three trailers, four motor cycles and spare parts valued at Rs.5.72 million which purchased in the year 1990 under ERRP project were in the custody of the Holcim Lanka Limited, Puttalam from the date of purchase up to the end of the year under review.

Further, action had not been taken to value them and disclose in the financial statements.

- (b) Standard 18 (i) Assets reduced to zero value and which were in use had not been revalued and brought to account.

	Rs.
Buildings – Head Office-	2,607,500
Furniture – Jaffna	- 648,494
Motor Vehicles – Jaffna -	1,840,667
Equipment – Jaffna	- 855,533

- (ii) Even though the assets should be depreciated from the year of purchase, the motor vehicles purchased at cost of Rs.4,285,714 during the year under review had not been depreciated in the same year.

- (c) Standard 22 Policy on Accounting for Investments had not been disclosed in the financial statements.

- (d) Standard 26 Even though the Sri Lanka Cement Corporation owns 62.45 percent of the shares of Ceylon Cement Company Limited, Consolidated Accounts had not been prepared even during the year under review in that connection.

- (c) Section 1 of Paragraph 5.4.4 In terms of the Section referred, advances of 20 percent of the agreed amount only should be paid in the procurement of services. On the contrary, 45 percent of advances had been paid to a private institution.

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) The balances of the debtors and deposits of the Corporation for the year under review Amounted to Rs.76,971,520 and according to the age analysis, it was shown as Rs.85,498,316. Out of this, the balances between 1-2 years, 2-5 years, 2-5 years and over 5 years amounted to Rs.34,047,371, Rs.18,546,294 and Rs.8,232,978 respectively. Action had not been taken to settle these balances.
- (b) The creditors and the accrued expenses during the year under review amounted to Rs.62,854,679 while it was shown as Rs.63,078,398 according to the age analysis. Out of this, the balances between 2-5 years and over 5 years amounted to Rs.6,587,028 and Rs.5,822,619 respectively. Action had not been taken to settle these balances.
- (c) A sum of Rs.3,859,719 outstanding for over 9 years as at the end of the year under review had not been recovered.

2.2.5 Lack of Evidence for Audit

Register of Fixed Assets, detailed schedules, deposit certificates and confirmation of balances relating to 7 items valued at Rs.1,840,678,590 had not been furnished to audit. Therefore, those could not be satisfactory vouched/verified in Audit.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the net profit of the Corporation during the year under review amounted to Rs.2,600,231 while it was Rs.5,074,585 during the preceding year, thus indicating a deterioration of 49 per cent in the operating result as compared with the preceding year.

3.2 Analytical Financial Review

The following observations are made.

- (a) The actual operating profit of the Corporation during the year under review amounted to Rs.181,644. Nevertheless, this profit had been increased up to Rs.2,600,231 due to the interest on fixed deposits and non-operating income amounting to Rs.2,418,587.
- (b) Even though the sales had been increased by 60 per cent during the year under review, a gross loss of Rs.604,462 had been incurred due to the increase of cost of sales as compared with the preceding year. The operating loss of the year had been Rs.181,644 due to the other operating income and cost of fixed production amounting to Rs.33,204,810 and Rs.32,418,704 respectively.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The Corporation had imported 58,352 metric tons or 1,167,040 bags of cement during the year under review out of which 21,088 bags had been damaged while 233 bags were misplaced. Further, the reason for the misplacement of those bags of cement had not been revealed.
- (b) The total sales during the year amounted to Rs.656,071,402 while the cost of sales was Rs.656,675,864 thus the gross loss amounted to Rs.604,462.
- (c) The income from sales of the concrete production and sales division in Kankesanturai during the year amounted to Rs.7,879,064 indicating a decrease of 74 per cent as compared with the preceding year. Due to the net sales and cost of sales of the above division amounting to Rs.6,860,513 and Rs.12,288,400 respectively, the gross loss had been Rs.5,427,887 indicating an increase of 258 per cent as compared with the preceding year.

The gross loss had been converted to a net loss of Rs.9,423,167 after being incurred other administration expenses amounting to Rs.3,995,281, while it indicated an increase of 31006 per cent in the loss of the year under review as compared with the preceding year.

A sum of Rs.196,000 had been paid as annual bonus for employees of the said division although it was running at loss continuously. Nevertheless, the loss incurred to the concrete division during the 5 preceding years ranged between Rs.1-20 million.

- (d) According to the Annual Action Plan, the expected target of sales during the year under review was 127,500 metric tons while the actual sales stood at 58,352 tons. Expected target of any month could not be achieved and only 46 per cent of the expected target of sales during the year under review had been achieved.

4.2 Management Inefficiencies

The following observations are made.

- (a) Value Added Tax totaling Rs.9,802,984 relating to the Head Office had not been deducted from the customers and remitted to the Commissioner General of inland Revenue during the year under review.
- (b) Tax amounting to Rs.16,562,261 had not been remitted to the Commissioner General of Inland Revenue during the year under review.
- (c) Sri Lanka Cement Corporation had leased out the clinker deposit of 5,352 acres in extent at Aruwakkalu for 50 years to a private Company in the year 1995 for the manufacture of cement. Nevertheless, a Section regarding any amendment to the lease rent during the 50 years had not been included in the agreement. Even though a directive had been issued by the Parliament Committee on Public Enterprises held on 16 August 2011 to amend the lease agreement regarding the clinker deposit, it had not been done so.
- (d) The land of 180 acres in extent owned by the Corporation situated at Kalladi, Palawi, Puttalam remained idle without being used effectively.
- (e) A sum of Rs.1,656,000 should be recovered by the Corporation due to a dishonoured cheque forwarded by a Sales Representative in respect of 5,100 bags of cement issued on credit basis during the year 2003. The Corporation had filed a court case on 11 February, 2008 to recover the said amount with the legal interest thereof. Even though the property of the Sales Representative was confiscated on a court order, action had not been taken to action such property and recover the money outstanding for over 9 years.

(a) A sum of Rs.1,083,618,910 had been invested in a Cement Company and the Corporation had not received any return thereon for over 14 years up to the year under review.

(b) No benefit whatsoever had been received for the sum of Rs.4,800,000 invested in a private Company since the year, 2004 up to the year under review.

4.3 Identified Losses

The Corporation had paid a sum of Rs.1,167,122 as penalty for delays in 6 six instances during the year 2011. The Chairman had informed me that penalty for delays had to be paid due to the strikes in the custom.

4.4 Administration of the Staff

(a) The posts of Chief Internal Auditor and Accountant of the Corporation had been left vacant since 08 September 2009 and September 2010 respectively while the management had not taken any action to fill those vacancies even as at the end of the year under review.

(b) Acting officers in respect of the five staff grade posts namely the Internal Auditor, Sales Officer, Personnel Officer, Supplies Officer and the Accountant had been appointed. Even though the approval to fill the vacancies of the approved cadre as at 31 October 2011 had been granted by the letter dated 15 November 2011 issued by the Director General of the Department of Management Services, necessary action and not been taken even as at the end of the year under review.

5. Accountability and Good Governance

5.1 Corporate Plan and Action Plan

Even though the Action Plan for the year 2011 had been prepared by the Corporation, it had not been updated in line with the Corporate Plan. Despite the Corporate Plan prepared for the period of five years from 2011 up to 2013, due attention had not been paid to achieve the vision, mission and objectives mentioned therein.

Budgetary Control

Significant variances were observed between the budgeted income and expenditure and the actual income and expenditure, thus indicated that the budget had not been made use of as an effective instrument of management control. The difference between the budgeted and the actual figures ranged between 1 and 95 per cent.

5.3 Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Financial and Physical Performance with Targets
- (b) Debtors and Creditors
- (c) Maintenance of Inventory Registers
- (d) Control over Assets and Maintenance of Registers
- (e) Maintenance of Bank Accounts

H.A.S.Samaraweera,
Auditor General.

**Report of the Auditor General on the Accounts of the
Sri Lanka Cement Corporation for the year ended 31 December 2011
in terms of Section 14(2)(C) of the Finance Act No.38 of 1971**

2.2 Comments on Financial Statements
Best Accounting Practices

Directors' Comments

2:2:1 **Best Accounting Practices**

Non-compliances with Sri Lanka Accounting Standards

The following observations are made:

- (a) Standards 3 and 5
Three tractors, three trailers, four motor cycles and spare parts valued at Rs.5.72 million which purchased in the year 1990 under ERRP project were in the custody of the Holcim Lanka Limited, Puttalam from the date of purchase up to the end of the year under review. Further, action had not been taken to value them and disclose in the financial statements.
- (b) Standard 18
(i) Assets reduced to zero value and which were in use had not been revalued and brought to account.
- | | Rs. |
|-------------------------|-----------|
| Buildings - Head Office | 2,607,500 |
| Furniture - Jaffna | 648,494 |
| Motor Vehicles - Jaffna | 1,840,667 |
| Equipment - Jaffna | 855,533 |
- (ii) Even though the assets should be depreciated from the year of purchase, the motor vehicles purchased at cost of Rs.4,285,714 during the year under review had not been depreciated in the same year.
- (c) Standard 22
Policy on Accounting for Investments had not been disclosed in the financial statements.
- (d) Standard 26
Even though the Sri Lanka Cement Corporation owns 62.45 percent of the shares of Ceylon Cement Company Limited, Consolidated Accounts had not been prepared even during the year under review in that connection.
- (a) The three number of tractors have been collected from Holcim Lanka Ltd. and forwarded to the Jaffna Concrete Project's work. The Holcim has furnished the Corporation with three brand new trailers on behalf of the Corporation owned three trailers used by them. Four number of motorbikes and spare parts which worth 5.72 Mn. are still in the Holcim premises. Action is being taken to call tender for the above items and offer to the highest bid.
- (b)
i. The Assets which are currently declared as scraps, but in usable condition, will be revalued and taken into the accounts from 2012 onwards.
- ii. Action has been taken to depreciate the assets from the date of which they are in a usable condition.
- (c) The policy of Accounting for investments will be published in the financial statement.
- (d) Action has been taken to prepare consolidated Accounts from year 2012 onwards.

2:2:2 Accounting Deficiencies

The following observations are made.

- | | |
|--|---|
| <p>(a) Even though a policy on amortization at 25 percent was existed, motor vehicles valued at Rs.8,699,370 of the Head Office and fittings and equipment valued at Rs.656,390 of the Jaffna Office had not been depreciated for the year under review.</p> | <p>(a) As per the depreciation policy, action has been taken to depreciate the same from this year onwards.</p> |
| <p>(b) A different amounting to Rs.7,060,990 between the ledger and the trial balance and a difference of Rs.305,017 relating to 06 items between the final account and the trial balance were observed.</p> | <p>(b) Action has been taken to eliminate the weaknesses the Accounts from 2012.</p> |

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

The following instances of non-compliance were observed during the course of audit.

Reference to Laws, Rules, Regulation, etc.	Non-compliances	
-----	-----	
<p>(a) Treasury Circular No.IAI/2002/02 of 28 November, 2002</p>	<p>A separate register in respect of computers, computer accessories and software had not been maintained.</p>	<p>(a) Steps have been taken to maintain a separate <u>regist</u> for the same.</p>
<p>(b) Public Enterprises Circular Mo.PED/12 of 02.06.2003</p>		
<p>(i) Section 4.2.2</p>	<p>Even though the Corporate Plan, Budget and the Performance should be <u>timely reviewed</u>, it had not been done so during the year under review.</p>	<p>Steps have been taken to review the Corporate Pla Annual Budget and the progress from time to time.</p>
<p>(ii) Para 8.3.8</p>	<p>Approval of the Cabinet of Ministers had not been obtained in respect of the donations and aid amounting to Rs.95,000 granted during the year under review.</p>	<p>Board approval had been obtained for this activity. future cabinet approval will be obtained in case donations.</p>

- (iii) Para 8.3.9 Resources belonging to the State Corporations and board should not be obtained for the purposes of the line Ministry. On the contrary, the cab purchased at a cost of Rs.4,800,000 had been used for the duties of the line Ministry. That particular Cab supposed to send to Jaffna Concrete Yard for their use.
- (c) Section 1 of Paragraph 5.4.4 In terms of the Section referred, advances of 20 percent of the agreed amount only should be paid in the procurement of services. On the contrary, 45 percent of advances had been paid to a private institution. As per the Defence Ministry instructions, our Stores situated at BCC premises has to be relocated and our Customers were not in a position to find new Stores Complex. Hence, we have released 45% advance payment to purchase cement by calling quotations with the approval of the Board of Directors.

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) The balances of the debtors and deposits of the Corporation for the year under review Amounted to Rs.76,971,520 and according to the age analysis, it was shown as Rs.85,498,316. Out of this, the balances between 1-2 years, 2-5 years, 2-5 years and over 5 years amounted to Rs.34,047,371, Rs.18,546,294 and Rs.8,232,978 respectively. Action had not been taken to settle these balances. Since this Age Analysis is erroneous, action will be taken to send the accurate analysis. Legal action has been taken to set off the balances aged more than 5 years. Debtors aged 2 – 5 years, make part payments to us.
- (b) The creditors and the accrued expenses during the year under review amounted to Rs.62,854,679 while it was shown as Rs.63,078,398 according to the age analysis. Out of this, the balances between 2-5 years and over 5 years amounted to Rs.6,587,028 and Rs.5,822,619 respectively. Action had not been taken to settle these balances. Action is being taken to settle these balances.
- (c) A sum of Rs.3,859,719 outstanding for over 9 years as at the end of the year under review had not been recovered. Action is being taken to settle these balances.

2.2.5 Lack of Evidence for Audit

Register of Fixed Assets, detailed schedules, deposit certificates and confirmation of balances relating to 7 items valued at Rs.1,840,678,590 had not been furnished to audit. Therefore, those could not be satisfactory vouched/verified in Audit.

Steps have been taken to produce Fixed Assets Register, Detailed Schedules, Deposit Certificates and justification for Audit purpose.

3 Financial Review

3.1 Financial Results

According to the financial statements presented, the net profit of the Corporation during the year under review amounted to Rs.2,600,231 while it was Rs.5,074,585 during the preceding year, thus indicating a deterioration of 49 per cent in the operating result as compared with the preceding year.

As a result of increasing the dollar rate in 2011, the cement import cost has increased. However, the competitors' market price of the cement has not increased and we were unable to increase the same too. Therefore, in 2011, operational results of the Corporation decreased.

3.2 Analytical Financial Review

The following observations are made.

(a) The actual operating profit of the Corporation during the year under review amounted to Rs.181,644. Nevertheless, this profit had been increased up to Rs.2,600,231 due to the interest on fixed deposits and non-operating income amounting to Rs.2,418,587.

During the year under review the Dollar's price has increased and as a result the operational profit has declined.

(b) Even though the sales had been increased by 60 per cent during the year under review, a gross loss of Rs.604,462 had been incurred due to the increase of cost of sales as compared with the preceding year. The operating loss of the year had been Rs.181,644 due to the other operating income and cost of fixed production amounting to Rs.33,204,810 and Rs.32,418,704 respectively.

When comparing with the previous year the sales of year 2011 has increased. However, the cost of sales has increased in line with the Dollar's value. We were unable to increase the price since the market price for the cement was also low. As a result of profit before tax has decreased.

4. Operating Review

4.1 Performance

The following observations are made.

(a) The Corporation had imported 58,352 metric tons or 1,167,040 bags of cement during the year under review out of which 21,088 bags had been damaged while 233 bags were misplaced. Further, the reason for the misplacement of those bags of cement had not been revealed.

There were instances where the stipulated number of bags that should be included in a container (i.e. 560 bags) were received in short of 01 or 02 bags.

(b) The total sales during the year amounted to Rs.656,071,402 while the cost of sales was Rs.656,675,864 thus the gross loss amounted to Rs.604,462.

As a result of the increment of the dollar value and fuel price the cost of sales has increased.

(c) The income from sales of the concrete production and sales division in Kankasanturai during the year amounted to Rs.7,879,064 indicating a decrease of 74 per cent as compared with the preceding year. Due to the net sales and cost of sales of the above division amounting to Rs.6,860,513 and Rs.12,288,400 respectively, the gross loss had been Rs.5,427,887 indicating an increase of 258 per cent as compared with the preceding year.

A number of employees are retaining at the KKS Concrete Poles production plant since the war season (For more than 25 years). Since we have to bear the salary, E.P.F. and other associated expenses of them, the operational cost has increased.

The gross loss had been converted to a net loss of Rs.9,423,167 after being incurred other administration expenses amounting to Rs.3,995,281, while it indicated an increase of 31006 per cent in the loss of the year under review as compared with the preceding year. A sum of Rs.196,000 had been paid as annual bonus for employees of the said division although it was running at loss continuously. Nevertheless, the loss incurred to the concrete division during the 5 preceding years ranged between Rs.1-20 million.

In year 2011, the Concrete Pole Production Plant was shifted to the Corporation's factory premises. Hence, the transport cost has increased.

(d) According to the Annual Action Plan, the expected target of sales during the year under review was 127,500 metric tons while the actual sales stood at 58,352 tons. Expected target of any month could not be achieved and only 46 per cent of the expected target of sales during the year under review had been achieved.

The annual bonus has been paid to the concrete producing employees who work both day and night.

4.2 Management Inefficiencies

The following observations are made.

- (a) Value Added Tax totaling Rs.9,802,984 relating to the Head Office had not been deducted from the customers and remitted to the Commissioner General of inland Revenue during the year under review. This value is the unclaimed input VAT amount and action will be taken to deduct the same from VAT payable.
- (b) Tax amounting to Rs.16,562,261 had not been remitted to the Commissioner General of Inland Revenue during the year under review. Arrangements have been made to remit the taxes to the Department of Inland Revenue without delay. Since the BTT has been accumulated for years and the Corporation has undergone through financial constraints the payments were delayed.
- (c) Sri Lanka Cement Corporation had leased out the clinker deposit of 5,352 acres in extent at Aruwakkalu for 50 years to a private Company in the year 1995 for the manufacture of cement. Nevertheless, a Section regarding any amendment to the lease rent during the 50 years had not been included in the agreement. Even though a directive had been issued by the Parliament Committee on Public Enterprises held on 16 August 2011 to amend the lease agreement regarding the clinker deposit, it had not been done so. Action is being taken to renew this agreement already.
- (d) The land of 180 acres in extent owned by the Corporation situated at Kalladi, Palawi, Puttalam remained idle without being used effectively. It is proposed to start an agricultural project in the land.
- (e) A sum of Rs.1,656,000 should be recovered by the Corporation due to a dishonoured cheque forwarded by a Sales Representative in respect of 5,100 bags of cement issued on credit basis during the year 2003. The Corporation had filed a court case on 11 February, 2008 to recover the said amount with the legal interest thereof. Even though the property of the Sales Representative was confiscated on a court order, action had not been taken to action such property and recover the money outstanding for over 9 years. We have claimed the insurance benefits on 6th June, 2011 and action regarding the same is on progress.

- (f) A sum of Rs.1,083,618,910 had been invested in a Cement Company and the Corporation had not received any return thereon for over 14 years up to the year under review. These funds deposited in the bank and obtained as instalment basis for the expenditure on Housing scheme. Balance up to 31.12.2012 is Rs.370,853.32 This amount obtained from the Treasury and invested in LCL as Share Capital.
- (g) No benefit whatsoever had been received for the sum of Rs.4,800,000 invested in a private Company since the year, 2004 up to the year under review. This receivable amount will be covered by acquiring this property to the government.

4.3 Identified Losses

The Corporation had paid a sum of Rs.1,167,122 as penalty for delays in 6 six instances during the year 2011. The Chairman had informed me that penalty for delays had to be paid due to the strikes in the custom. Due to the strike carried out on Customs Department, we were unable to clear the goods within the stipulated period. Hence, we had to pay the demurrage amount.

4.4 Administration of the Staff

- (a) The posts of Chief Internal Auditor and Accountant of the Corporation had been left vacant since 08 September 2009 and September 2010 respectively while the management had not taken any action to fill those vacancies even as at the end of the year under review. All these appointments have been forwarded for the approval of the Board of Directors.
- (b) Acting officers in respect of the five staff grade posts namely the Internal Auditor, Sales Officer, Personnel Officer, Supplies Officer and the Accountant had been appointed. Even though the approval to fill the vacancies of the approved cadre as at 31 October 2011 had been granted by the letter dated 15 November 2011 issued by the Director General of the Department of Management Services, necessary action and not been taken even as at the end of the year under review. It has been taken into consideration as an effective management tool from 2012.

5. Accountability and Good Governance

5.1 Corporate Plan and Action Plan

Even though the Action Plan for the year 2011 had been prepared by the Corporation, it had not been updated in line with the Corporate Plan. Despite the Corporate Plan prepared for the period of five years from 2011 up to 2013, due attention had not been paid to achieve the vision, mission and objectives mentioned therein.

Action will be taken to revise the same on year 2012.

5.2 Budgetary Control

Significant variances were observed between the budgeted income and expenditure and the actual income and expenditure, thus indicated that the budget had not been made use of as an effective instrument of management control. The difference between the budgeted and the actual figures ranged between 1 and 95 per cent.

The year 2012's budget will be utilized as an effective tool of management control.

5.3 Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

We assure that we could take action to rectify all the deficiencies

We thank the Auditor General and Staff for the valuable guidance and suggestions.

- (a) Financial and Physical Performance with Targets
- (b) Debtors and Creditors
- (c) Maintenance of Inventory Registers
- (d) Control over Assets and Maintenance of Registers
- (e) Maintenance of Bank Accounts

Sgd.
H.A.S. Samaraweera,
Auditor General.