State Printing Corporation - 2012

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1. Financial Statements

1.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 1.2 of this report, the financial statements do not give a true and fair view of the financial position of the State Printing Corporation as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

The following non compliances with Sri Lanka Accounting Standards were observed in audit.

Reference to Sri Lanka Accounting Standard	Non compliance
(a) Sri Lanka Financial Reporting Standard No.01	The final accounts of the year under review had not been furnished according to the retrospective restatement method. The information of the previous years accounts had been repeated. Meanwhile, the statement of changes in equity to be incorporated in the financial statements had not been incorporated in the final accounts.

(b)	Sri Lanka Accounting Standard No. 02	The value of stock of the trading account should be shown at cost and the net realizable value. Losses written off should be incorporated as an expenditure of the period concerned. However, this had not been done.
(c)	Sri Lanka Accounting Standard No. 07	The cash flow and receipts had not been shown in the cash flow statement. Instead, the value of net cash flow generated from operating activities alone had been shown.
(d)	Sri Lanka Accounting Standard No. 16	Fully depreciated assets used for operating activities had not been revalued and brought to account.
(e)	Sri Lanka Accounting Standard No. 23	The loan cost incurred on qualified assets should be definitely capitalized. Of the method adopted is to write it off as an expenditure, it should be changed retrospectively. However, this had not been done by the Corporation.
(f)	Sri Lanka Accounting Standard No. 39	The financial assets of the Corporation had not been shown at fair value in the statement of financial position

1:2:2 Accounting Deficiencies

The following observations are made.

(a) The profit for the year under review had been overstated by Rs. 109,913,212 in the financial statements due to erroneous accounting entries. Accordingly, the financial results shown in the financial statements had not depicted a true and fair position. Details are as follows.

Erroneous Accounting Entries -------------------------------------		Overstatement/ (Understatement) of Profit --------------------
		Rs.
(i)	The value of accrued expenses account had been accounted as income from school books. As a result, the profit for the year had been overstated and the current liabilities had been understated	38,710,402
(ii)	Penalties on school text books for the year under review had not been accounted for	10,622,762
(iii)	Provision for penalties had not been made with regard to income from school books due to the Corporation from the Department of Educational Publications	14,854,472
(iv)	The balances of the pre payment account had not been adjusted in the accounts of the year under review. As such, the current asset and the year's profit had been overstated	500,301
(v)	The shortage of closing stock of the year under review had not been accounted for. As a result, the profit had been overstated and the current liabilities had been understated	77,459
(vi)	Expenditure on foreign travels had not been accounted for	1,526,192
(vii)	The advances of pervious years had been accounted as expenditure of the year under review	(753,395)
(viii)	Provision had not been made in the accounts for contributions and surcharges payable to the Provident Fund	4,091,410
(ix)	Understatement of depreciation relating to computer software and furniture and equipment	322,602

(x)	Overstatement of depreciation relating to buildings and motor vehicles	(170,900)
(xi)	Understatement of value added tax relating to unallowed out lay	32,755,211
(xii)	Receipt of compensation from insurance had been accounted for, as income	535,600
(xiii)	Over valuation of closing stock of other sales units	6,841,096

	Overstatement of profit	109,913,212
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(b) The penalty recovered for books not printed and handed over on the due dates and for not complying with the specifications during the year under review amounted to Rs. 44,500,053. This had not been accounted for, and as a result the Reserves and Surplus Account had been overstated by Rs. 33,877,291 and the debtors had been overstated by Rs. 44,500,053 in the accounts.

(c) During the year under review, the sum of Rs. 3,989,830 debited to the Long term Bank Loan Account had been credited to the Debtors Account. As a result, the debtors of the Corporation had been understated by of Rs. 3,989,830

(d) The Value Added Tax of Rs. 56,734,717 payable as at 31 Decmber 2012 had been understated in the accounts.

1.2.3 Unexplained Variations

The unsettled advances of the Corporation as at December 2012 were valued at Rs. 2,297,183. However, a difference of Rs. 1,008,744 existed between the creditors' advance schedule and the accounts furnished to audit.

1.2.4 Accounts Receivable

The following observations are made.

(a) Although the trade debtors as at 31 December 2012 amounted to Rs. 514,427,534, confirmations had been called for, from trade debtors of Rs. 72,174,627 only. Of these, balances amounting to Rs. 28,671,423 alone had been confirmed and a balance of Rs. 15,358,043 was revealed between the balances in the accounts and the balances confirmed. As a result, the correctness of balances of debtors shown in accounts could not be confirmed in audit. However, the Chairman had informed that out of the entire debtors, Rs. 253,497,550 was due from the main customer, that is, the Department of Educational Publications.

(b) Credit balances of debtors amounting to Rs. 10,319,375 had been set off in the debtors balances and the value shown in the accounts represented net debtors. However, balances exceeding 5 years existed in the credit balances of debtors.

(c) Out of the trade debtors as at the end of the year under review, Rs. 100,252,464 Rs. 79,523,552 and Rs. 36,647,074 remained as arrears for over 1 year, 2 years and 5 years respectively. Recovery of debts of pervious years was at an adverse level.

(d) The Corporation had recruited a Sales Representative without any basis and had sold exercise books on credit. However, the Corporation had not entered into any agreements. The amount recoverable from him as at 31 December 2012 amounted to Rs. 7,902,046. The recovery of loan was at an adverse level even as at 30 June 2013.

(e) The debtors' balance of the sales Centre at Kandy as at the end of the year under review was Rs. 4,509,102. Of these loans granted without sureties, loans amounting to Rs. 3,560,108 could not be recovered.

(f) A sum of Rs. 6,342,671 was due on 15 invoices from the Department of Educational Publications for printing text books during 2006 to 2011. This had not been recovered.

(g) The amount due as at 31 December 2012 from the Wayamba Special Project which commenced in 2006 was Rs. 2,146,429. Of this, a sum of Rs. 645,245 was due from Sales Promotion Officers. Action had not been taken even as at 31 December 2012 to recover this and to settle the balance.

1.2.5 Lack of Evidence for Audit

Evidence indicated against each of the following item had not been furnished.

Item	Value	Evidence not furnished
	Rs.	
Debit tax	18,454,806	Schedules, ledger accounts
Spare parts of machinery	16,230,859	Reports relating to usage of machinery

1.2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non compliances with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules and Regulations	Non Compliance
(a) Paragraph 9 (ii) of the Circular issued by the Ministry of Finance and Policy Planning No. 2010/01 dated 11 October 2010	While applying for foreign travel allowances, the approval concerned and the details of air travel to ascertain the allowances should be furnished. However, foreign travel allowances aggregating Rs. 2,520,026 had been

	paid to the Vice-Chairman and the General Manager of the Corporation and the sports participants without furnishing such details.
(b) Public Enterprises Circular No. PED 12 of 02 June 2003	
(i) Section 8.3.4	A sum of Rs. 329,450 had been paid in excess of the limit on behalf of telephone charges of the Chairman of the Corporation.
(ii) Section 8.3.9	The Corporation had paid Rs. 356,894 to settle the bills of mobile telephone of the Minister.
(iii) Section 8.3	During the year 2012, lodging charges of the Chairman of the Corporation aggregating Rs. 424,000 had been paid to a private institution.
(iv) Section 8.3.8	A sum of Rs. 1,050,000 had been donated during the year 2012 without the approval of the Cabinet of Ministers.
(c) Government Procurement Procedure Guideline 5.4.10	A certificate of guarantee had not been obtained for spare parts. Action had not been taken at least to evaluate the successfulness of complete repairs carried out to a machine. Instead, out

of the spare parts purchased at a value of Rs. 8,201,080 for the Man Roland Machine, spare parts valued at Rs. 759,989 alone had been fitted and a technical certificate had been obtained to state that the machine works satisfactorily working, while the rest of the entire stock was lying at the stores. Meanwhile, action had been taken to purchase spare parts for other machinery too.

2. Financial Review

2.1 Financial Results

The operating results of the Corporation for the year under review was a pre tax net profit of Rs. 140,567,143 as compared with the per tax net profit of Rs. 133,688,336 of the previous year. The improvement in financial results observed was Rs. 6,878,808.

2.2 Analytical Financial Review

Important data relating to financial results compared with the values of previous year appear below.

	For the year ended 31 December			
	2012	%	2011	%
	Rs.(000)		Rs.(000)	
Sales	1,219,131	-	1,188,807	-
Cost of Sales	763,953	-	792,849	-
Gross Profit	455,177	37.3	395,958	33.3
Income Tax	52,258	-	56,688	-
Net profit (after tax)	88,309	7.2	77,000	6.4

2.3 Loan Utilization

Short term loans obtained during the year under were was Rs. 481,219,473. Of this, a sum of Rs. 296,586,575 had not been settled even as at 31 December. During the year under review, a sum of Rs. 41,085,847 had been paid as interest on short term loans, including extra interest paid for non payment of loans on the due dates.

2.4 Bank Accounts

The following observations are made.

(a) The Corporation maintains 3 bank accounts. There were continuous overdrafts in the People's Bank (International Branch) account during 2012. The amount paid as interest on bank overdrafts was Rs. 6,276,304.

(b) As compared with the previous year, an extensive increase of 47 per cent in financial cost had occurred during the year under review as a result of increase in short term Bank loans and due to uninterrupted bank over drafts.

2.5 Abnormal increase in Expenditure

The following observations are made.

(a) The budgeted expenditure of foreign travel for the year under review was Rs. 2,000,000. However, a sum of Rs. 4,258,282 had been paid as expenditure on foreign travel during the year, exceeding this limit

(b) During the year under review, the Corporation had spent Rs. 1,791,285 as telephone charges. 43 per cent of this representing Rs. 767,434 had been paid to settle the mobile phone bills of the Chairman of the Corporation and the Ministry of Media and Information.

2.6 Working Capital Management

The following ratios had not reached the accepted levels. The current ratio showed an improvement compared with the previous year. However, 89 per cent of the total current assets of the year under review incorporated the debtors and the closing stock with lesser liquidity. Meanwhile, investments had not been made for the sum of Rs. 110 million shown as provision for gratuity in the financial statements.

Liquidity Ratio	Accepted Ratio	2012	2011	2010
Current Ratio	2:1	1.44:1	1.28:1	1.19:1
Quick Assets Ratio	1:1	0.91:1	0.84:1	0.91:1

The turnover of stock had decreased compared with the preview year. Thus it was observed that comparative higher investments had been made in stocks. Meanwhile, it was observed that there was an adverse situation of an increase in stock holding cost in the Corporation.

Details are shown below.

Efficiency Ratio	2012	2011	2010
Stock Turnover Ratio	2.56 times	3.72 times	4.40 times

3. Operating Review

3.1 Performance

3.1.1 Income

The income from school books, exercise books and the other income had increased by Rs. 51 million, Rs. 48 million and Rs. 9 million respectively compared with the previous year. The increase in income compared with the previous year was 8 per cent, 29 per cent, and 29 per cent respectively. The income from commercial printing had decreased by Rs. 27 million representing 10 per cent compared with the previous year.

3.1.2 Production

The production of copies of school books had decreased by 2,910,000 units during the year under review compared with the previous year. Meanwhile, the number of commercial printing too had decreased by 130. The number of copies of exercise books had increased by 2,409,000 or 18 per cent during the year under review.

3.2 Management Inefficiencies

The following observations are made.

(a) The categories of text books and the number of copies received for printing during the year under review had decreased by 30 per cent and 1.5 per cent respectively compared with the year 2011. and it was 43 per cent and 4.3 per cent respectively compared with the previous year.

(b) Penalties amounting Rs. 53,959,198 had been paid during the year under review with regard to school books orders of 2011/2012 and 2012/2013 as a result of not printing and forwarding the books on the due dates and for not complying with the required specifications.

(c) The H.B-03 machine of the Letter Press Division continuously remained inoperative from 2011 to July 2012. However, the management had not been drawn its attention to repair it or to take any other suitable action.

(d) Fifteen machines of the Letter Press Binding and the Litho Divisions of the Corporation had been under utilized from January to July 2012. As a result, 82,141,292 units of production had been deprived of.

(e) Spare parts had been purchased in excess while paying excessive interest on bank overdrafts and short term loans. The value of spare parts so stored at the end of the year under review were valued at Rs. 50,050,009.

3.3 Operating Inefficiencies

An annual Action Plan had not been prepared for the Publications Division. Although it was estimated to earn an income of Rs. 2,500,000 for the year under review, a sum of Rs. 306,971 only had been earned . The loss during the year under review amounted to Rs. 284,006.

3.4 Apparent Irregularities

The following observations are made with regard to the expenditure of Rs. 31,727,140 incurred for the purchase of spare parts for machinery.

(a) Purchase of spare parts had been made by creating a bogus institution with the interference of the Chairman mainly for this purpose.

(b) The Chairman of the Corporation had been directly involved in transactions amounting to Rs. 12,500,000 in a current account opened in a private bank purely for this transactions and the Chairman had connection with certain transactions valued at Rs. 8,932,000.

(c) It was confirmed in audit that out of the spare parts purchased, spare parts valued at Rs. 75,959 alone had been imported. None of the details of other spare parts said to have been supplied could not be furnished to audit.

(d) Genuine spare parts were available in the market at a lesser cost than the spare parts purchased, said to have been manufactured in China and such lesser value observed in a sample of spare parts aggregated to Rs. 2,960,730.

(e) The letter head of the supplying institution had been used for purchasing the spare parts and bogus quotations had been called for, and the amount paid was Rs. 4,667,900.

(f) Although there were inadequate funds in the account, 3 cheques valued at Rs. 2,150,000 had been issued as performance bond and these cheques had been retained at the institution without being banked by the State Printing Corporation.

3.5 Idle and Under Utilized Assets

The following observations are made.

(a) The machines of the Corporation had been idled from January to July 2012 and the number of idle hours compared with the budgeted hours was very high. It ranged from 24 to 79 per cent. The reason could be attributed to no work, inoperative machines and absence of machine operators which were 79 per cent, 11 per cent and 8 per cent respectively of the entire idle period.

(b) Four machines of the Litho and Binding Divisions had completely idled due to inadequacy of work.

(c) A stock of GSM 58 papers produced, the value of which was Rs.3,205,208 was lying at the stores the of Corporation and at the Sangaraja Mawatha stores in an unusable condition for many years due to reasons such as, production and distribution without plan, weaknesses in planning sales and lack of co-ordination between the Production and Sales Divisions.

(d) It was observed at the physical verification that there were an extensive stock of publications at the stores of the sales outlet, Sangaraja Mawatha. They were covered with dust and had become discoloured. Attention had not been paid to minimize the loss and to properly make use of the space available at the stores by adopting a method before these stocks reach an unsuitable saleable position.

(e) Spare parts valued at Rs. 30,532,890 had been purchased during the year under review to repair printing machines. Of these, spare parts valued at Rs.26,260,390 remained unused even as at 31 December 2012.

3:6 Identified Losses

A cash shortage of Rs.223,545 and a stock shortage of Rs.222,205 had occurred at the International Book Exhibition in 2010. Action had not been taken to recover these from the officers concerned. Instead, it continued to be shown under other recoverables.

3:7 Resources of the Corporation given to other State Institutions

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The following observations are made.

(a) Twelve employees had been released to the Ministry of Media and Information contravening Section 8.3.9 of the Public Enterprises Circular No. PED 12 dated 02 June 2003. During the year under review salaries amounting to Rs. 2,390,151 and overtime amounting to Rs.680,310 both aggregating Rs.3,070,461 had been paid by the Corporation without a certificate of a responsible officer of the Ministry relating to the arrival and departure of employees.

(b) The Corporation had paid Rs.278,464 as salaries to an employee who had been released to the Ministry whose contract period had ceased and who had not accepted the extension of service subsequently. His attendance for had not been reported to the corporation.

(c) The Chairman and the Chairman's driver had accepted Rs.50,000 as advances and Rs.38,875 as salaries respectively on behalf of an employee who had been released to work at the Ministry, contravening F.R.268.

3.8 Vehicle Utilization

The following observations are made.

(a) The officers of the Corporation had used fuel amounting to Rs.804,086 exceeding the approved limits allowed for official vehicles, contravening Public Administration Circular No.13/2008(iv) dated 09 February 2011.

(b) Two vehicles had been allocated for usage of the Chairman of the Corporation contravening Section 8.3.5 of the Public Enterprises Circular No.PED 12 dated 02 June 2003.

(c) Vehicles could be obtained on lease rent, subjected to a limit of Rs.40,000. without Value Added Tax in order to fulfill the essential need for vehicles in terms of Public Finance Circular No. MPDI/MPRD/vehicles dated 11 October 2002. However, the monthly payments for 3 vehicles obtained by the Corporation amounted to Rs.48,000 each.

(d) Vehicle log books had not been properly updated in terms of Financial Regulation 1645.

(e) The information to be entered in the daily running charts of vehicles of the Corporation had not been properly maintained.

(f) Competitive bids had not been called for, in order to select the lowest price for benefit of the Corporation. Instead, a motor vehicle had been obtained for the Corporation on the basis of hire.

4. Accounting Activities and Good Governance

4.1 Corporate Plan

A Corporate plan of the Corporation for the period 2009 – 2013 had been prepared. However, the plan concerned had not been annually updated in terms of Section 5.1.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.

4.2 Action Plan

An action plan to fulfil all the targets relating to the year under review should be prepared. However, the Corporation had prepared an action plan so as to show the targeted quantity of products and their value only. Accordingly, the ability to use the action plan as an effective instrument of management control had faded.

4:3 Procurement Plan

The Procurement Plan of the Corporation had been prepared and approved on 05 July 2012. Purchases had not been made on the basis of proper procurement plan. As such, the purchase of spare parts valued at Rs.51,203,102 had exceeded the procurement plan showing that the procurement plan had not been used as an effective instrument of management control.

4.4 Budgetary Control

Significant variations were observed between the budgeted and actual values showing that the budget had not been used as an effective instrument of management control.

5. Systems and Controls

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

(a) Accounting
(b) Financial Control
(c) Payment of Advances
(d) Budgetary Control
(e) Procument
(f) Vehicle Control