

State Printing Corporation.

1. Financial Statements -----

1.1 Opinion -----

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the State Printing Corporation had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards give a true and fair view of the state of affairs of the State Printing Corporation as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1.2 Comments on Financial Statements -----

1.2.1 Sri Lanka Accounting Standards (SLAS) -----

Even though fully depreciated assets which are still used for operational purposes should be revalued and brought to accounts as per SLAS 18, it had not been complied with in respect of fixed assets fully depreciated as at 01 January 2010 but continuously used.

1.2.2 Accounting Deficiencies -----

The following accounting deficiencies were observed.

(a) Omissions from Accounts -----

Provision for audit fees for the year under review had not been made.

(b) **Inappropriate Disclosures**

- (i) In collecting sales income, the sales collection account should be reconciled with the sales control account and settled. However two unreconciled debit balances totalling Rs.435,732 and two credit balances totalling Rs.1,387,730 had been set off and the net credit balance of Rs.951,998 had been shown in the balance sheet under current assets as a negative balance.
- (ii) The value of debit balances under staff loans amounted to Rs.347,173. After deducting credit balances of Rs.16,368 there from the difference of Rs.330,805 had been shown in the accounts. The reason for this is that there is no proper procedure to settle payables to staff and receivable from staff.

1.2.3 Unreconciled Control Accounts

The balance of the stock variance account amounting to Rs.99,099 brought forward since the year 2008 had not been reconciled and settle even up to 31 December 2010. The unsettled and unreconciled stock variance balance as at 31 December 2010 amounted to Rs.126,652 and as a result, the current liabilities had been overstated as a similar account in the year under review.

1.2.4 Accounts Payable and Receivable

The following observations are made.

- (a) According to the age analysis of creditors amounting to Rs.39, 641,361 the value of creditors more than 5 years amounted to Rs.18,848,493 representing 47.5% of the total creditors.
- (b) According to the schedule presented the unsettled advances amounted to Rs.4,891,182 and the value of creditors had been understated in the

Balance Sheet as Rs.4,859,433. The difference between the value shown in the balance sheet and the schedule amounted to Rs.31,749.

- (c) The unsettled advances as at 31 December 2010 amounted to Rs.4,891,182 and out of that the advances of Rs.2,549,263 had been given prior to 2 years .

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

 Non-compliance with the following laws, rules and regulations etc. observed are given below.

| Reference to Laws, Rules, Regulations etc | Non-compliance |
|--|---|
| ----- | ----- |
| (a) Paragraph (a) and (b) of Subsection 13(8) of the Finance Act | Steps proposed to be taken by the Board of Directors in respect of the 13(7)(a) report for the year 2009 had not been informed the Auditor General. |
| (b) Financial Regulations (F.R) | |
| (i) F.R. 177(1) | Although all the money received by the Corporation should be banked in bank and obtained the receipts cash receipts, over Rs.100,000 had been remained in hand of the cashier for the period ranging from 3 to 21 days. |
| (ii) F.R. 315, 316, 317 | Cash receipts in addition to the petty cash imprest of Rs.100,000 remained in the custody of the cashier in charge of the petty cash had not been kept in a safe |

and an average cash of Rs.150,000 had been kept in the drawer of the cashier.

- (c) Value Added Tax Act No. 14 of 2007 Section 7(2)(b) Due to non remittance of VAT to the Commissioner General of Inland Revenue within the first week of next month sums of Rs.725,263 Rs.2,078,804 and Rs.1,879,188 relating to the years 2010, 2009 and 2008 respectively had been retained by the Corporation. The Chairman had stated in his letter dated 13 May 2011 that this amount had been retained in view of setting off the tax liability of Rs.12 million.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

According to the financial statements presented the operation of the Corporation had resulted in a pre-tax net profit of Rs.92,128,005 for the year under review as compared with the pre-tax net profit of Rs.17,493,407 of the preceding year thus indicating an increase of Rs.74,634,598 in the financial results. The increase in net profits of the main press, stationary stores and other sales outlets by Rs.85,936,934, Rs.16,575,847 and Rs.1,469,428 respectively had been the main reason for the increase in financial results.

Even though the increase in net profit in the year 2010 amounted to Rs.74,634,598 as compared with that of preceding year the increase the value of

debtors amounted to Rs.261,528,029. Accordingly, the credit sales included in the sales income had materially shown a high value.

2.1.2 Analytical Financial Review

According to the cash flow statement the overdraft balance of the year under review amounted to Rs.40,484,817 as compared with the overdraft balance of Rs.9,337,551 in the preceding year. Accordingly it was observed that the balance had deteriorated by Rs.49,822,368.

The overdraft balance of the International Division of the People's Bank had increased by Rs.30,528,542 in the year 2010 over the year 2009. There was a overdraft balance of Rs.5,053,033 in the Homagama Branch of the People's Bank. Most of the sales of the Corporation done on credit basis, not taking follow up action to collect debts and purchase of raw materials on credit basis had been the reasons for the increase in bank overdrafts. As the proper procedure had not been followed for debt collection the repayment of bank overdrafts had been at a weak level.

2.1.3 Utilization of Loans

Increase in Bank Loans

The short term loans obtained by the Corporation for raw materials required for manufacturing purposes and for the purchase of capital assets had shown an increase recently. Loans Rs.452,664,894, Rs.340,754,716 and Rs.249,430,332 had been obtained in the year 2010, 2009 and 2008 respectively. Accordingly the value of loans obtained in the year 2010 had been increased by 32% as compared with the year 2009 whereas the value of loans obtained in the year 2010 had been increased by 81% as compared with the year 2008.

2.2 Operating Review

2.2.1 Management Inefficiencies

(i) Audit and Management Committee

According to the Sub section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 at least once in 3 months the audit and management committee should meet. However only one committee meeting was held in the year 2010.

(ii) Cost of personnel

Eight officers of the Corporation had been released to the Ministry and to the Western Provincial Council. A sum of Rs.667,600 had been paid to 5 of them as salaries during the year under review.

(iii) Slow Moving Stocks

With the commencement of the production of books on GSM 60 paper, the demand for books manufactured on GSM 58 paper had declined. As a result 376,514 of exercise books manufactured in various sizes on GSM 58 papers had been stocked in the stores. While those book were covered with dust and de-coloured and had become non usable, excercises books had been manufactured on GSM 58 paper in the year 2010 as well.

(iv) Weaknesses in Meeting Market Competition

Even though the market review ensured that there is a better demand for the excercises books manufactured by the other private sector on GSM 56 paper, the management had not made an attempt to grab the market for the exercise books manufactured on GSM 56 paper.

(v) Manufacture of Substandard Books

Nearly 13500 books had been stocked in the stores which had been returned from schools and shops due to being rusted stapling of the books and being damaged due to re stapling. Due to the manufacture and sending to the market of such inferior and substandard books, it was observed that dropping the market demand for the Corporation products would be unavoidable.

(vi) Printing Order for School Test Books

The following observations are made.

- (a) The overall printing of school test books for the year 2010 amounted to 387 types, out of which only 133 types of books had been received by the State Printing Corporation representing 34.37% of the overall quantity. Even though the number of types of books received by the Corporation in the year under review had increased as compared with the preceding 2 years, number of copies had not been significantly increased.
- (b) In placing orders for the printing of school test books the Department of Educational Publication considers about the handing over of test books in the preceding year on time. Nevertheless, the Corporation was unable to hand over the books given for printing in the year 2010 in respect of the year 2011 on due date specified in the agreement. A sum of Rs.75,122,382 representing 11.5% of the invoice value in the year 2008 and a sum of Rs.6,245,689 representing 1.2% of the invoice value in the year 2009 had been recovered as fines and damurage charges.

(vii) Failure of the Vayamba Special Project

This project had been commenced in the year 2006 and it was problematic to recover the balance of Rs.3.3 million due as at 31 December 2010. The corporation had not taken necessary steps to find solutions in respect financial misappropriation occurred in the project.

2.2.2 Idle and Under - utilized Assets

The following matters were observed.

- (i) The total idle plant hours of the Corporation during the period January to December 2010 was 50,220 and that representing 40% of the 126,150 budgeted hours. Out of total idle hours 37,139 hours or 74%, 5502 hours or 11% and 4020 or 8% had been idle due to no works, breakdowns and lack of workers respectively.
- (ii) Due to completely idling of 4 machines during the year 2010, the number of units lost to the production was 24,912,500 and as a result of 08 machines becoming idle from 60% to 99% of the estimated hours, the number of units lost to the production was 48,168,232.
- (iii) Pacer 3 machines in the Litho Division had been idle due to no works. The Chairman reported me by his letter dated 13 May 2011 that this machine could not be repaired from the inception of the Corporation.

2.2.3 Identified Losses

The following matters were observed.

- (i) A surcharge of Rs.58,208 had been paid due to non payment of Employees Trust Fund contributions on due dates.
- (ii) A fine of Rs.3,500 had to be paid due to delay in paying BTT to the Western Province Inland Revenue Department.

2.2.4 Annual Budget

In view of significant variances between the budgeted and actual balances the Budget had not been made use of as an instrument of management control.

3. Systems and Controls

Deficiencies in systems and controls had been 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) Reconciliation of Control Accounts
- (c) Budgetary Control
- (d) Financial Control
- (e) Stock Control