State Printing Corporation - 2013

The audit of financial statements of the State Printing Corporation for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, 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 and Section 23 of the State Printing Corporation Act, No. 24 of 1968. 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.

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 consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). 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 judgment, including the assessment of the risks of material misstatement 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 powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 State Printing Corporation as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments of Financial Statements

2.2.1 Sri Lanka Accounting Standards (SLAS)

(a) S.L.A.S. No. 02

The Value of the closing stock should be shown in the financial statements at the cost or the net realizable value whichever is less. Even though the Value of the closing stock had been shown at the net realizable value in the financial statements, the method of writing down the value had not been disclosed in the financial statements.

(b) S.L.A.S. No. 07

Even though the Corporation had paid a sum of Rs.31,421,288 as income tax in the year under review, instead of showing the actual payment of income tax in the cash flow statement, a sum of Rs.92,604,587 had been shown as a reimbursement of income tax.

(c) S.L.A.S. No. 08

Instead of restating the financial position of the preceding year by adjusting the balances of the debtors, creditors and other liabilities accounts with retrospective effect as rectification of errors of the preceding year, the total amount had been adjusted to the accumulated profit brought forward from the preceding year.

(d) S.L.A.S. No. 16

Assets costing Rs.158,465,019 fully depreciated but being used continuously had not been revalued and disclosed in the financial statements.

(e) S.L.A.S. No.23

Even though the entities had been encouraged to consider the possibility of capitalizing the cost of borrowings and take action accordingly, the Corporation had written off to income the borrowing cost relating to the eligible assets as recurrent expenditure without identifying the cost of borrowings that can be capitalized.

(f) S.L.A.S. No. 39

The Corporation had valued the financial assets at the cost thereof and shown in the financial statements instead of valuing them at fair value.

2.2.2 Accounting Policies

Instead of carrying out a proper analysis of the recoverability of debts and determining the amount for write off as bad and doubtful debts, a provision of Rs.18,765,192 representing 2.5 per cent of the total trade debtors had been made for bad and doubtful debtors for the year under review.

2.2.3 Accounting Deficiencies

Even though only the Economic Service Charge paid is allowed for set-off as a tax liability in the computation of the income tax payable for the year 2012, the unpaid Economic Service Charge had been deducted from the income tax payable in the Computation of the income tax payable on the profit for the year 2012. As such the balance brought forward as income tax payable had been understated by a sum of Rs.2,232,569 in the financial statements.

2.2.4 Unreconciled Control Accounts

The credit balance of Rs.2,288,897 in the Sales Collection Account had not been reconciled with the Sales Control Account.

2.2.5 Unexplained Differences

The following differences had not been explained to audit.

(a) The difference of Rs.460,550 between the Creditors Advance Account and the Schedule.

(b) The difference of Rs.8,535,013 between the debtors balance receivable from the Department of Educational Publications in respect of orders placed for school text books in the year 2008 and preceding years and the debtors balance confirmed by that Department.

(c) The difference of Rs.493,662 between the debtors balance No. 2/D/3146 of the Gampaha Sales Stall and the balance confirmed by the Sales Stall.

2.2.6 Lack of Evidence for Audit

The letters of confirmation of balances relating to the sum of Rs.231,103,473 receivable from trade debtors had not been furnished to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The trade debtors balance in the preceding year amounted to Rs.514,427,534 and that balance as at 31 December 2013 amounted to Rs.750,607,688. The trade debtors balance had increased by 46 per cent. According to the comments of the Chairman, the delay in the receipt of money from the Department of Educational Publications had been the reason for the increase in the trade debtors balance.

(b) Out of the total trade debtors balance recoverable as at 31 December 2013 amounting to Rs.750,607,688 , sums of Rs.69,480,869 and Rs.48,529,734 remained without being recovered over periods of 01 year and 2 – 5 years respectively. The debtors balance older than 05 years amounted to Rs.27,607,294. The recovery of debts during the year under review, as compared with the preceding years had been at a very weak level. The debt recovery of trade stalls had been in the ranges of 93 to 28 per cent. The debt recovery of Sales Stalls at Kandy and Gampaha had been at an extremely low level.

(c) Out of the debtors who had forwarded confirmations of debtors balances, debtors amounting to Rs.928,947 had indicated that balances payable to the Corporations did not exist. But further attention had not been paid to the matter.

(d) No recoveries whatsoever had been made up to the end of November 2014 from the debtors balance older than 04 years amounting to Rs.6,448,439 receivable from the National Institution of Education.

(e) Even though a debtors balance of Rs.7,989,969 remained receivable as at the end of the year from the National Paper Corporation a sum of Rs.6,689,495 remained without being recovered over a period exceeding 02 years.

(f) The debtors balance recoverable since the year 2012 amounting to Rs.5,491,257 of the Anuradhapura Sales Stall had not been settled even by 30 November 2014. These credits had been allowed outside the credit procedure on the verbal instructions of the former Chairman. Even though the default of settlement of debts had been reported to the Police, legal steps had not been taken for the recovery of the debts.

(g) A Sales Agent for the sale of exercise books of the Corporation had been appointed from the year 2010 and the payments defaulted by the agent amounted to Rs.5,800,306. Security Guarantees had not been obtained from the agent for credit facilities and credit had been allowed on the orders of the Chairman. The 40 per cent discount allowed on cash sales had been allowed on sale of exercise books on credit basis without obtaining security.

(h) The total creditors as at the end of the year under review amounted to Rs.54,174,102 and according to the age analysis the unsettled creditors old between 2 to 5 years amounted to Rs.23,102,304 and represented 42 per cent of the total value of creditors.

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

Instances of non-compliance with the following laws, rules, regulations and management decisions were observed during the course of audit.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Sub-section 26(1) of the Value Added Tax Act, No. 14 of 2002	Out of the Value Added Tax amounting to Rs.116,696,970 collected from the clients from the year 2008 to the year 2013 for remittance to the Department of Inland Revenue, a sum of Rs.92,960,966 or 70 per cent had not been remitted even by 31 December 2013.
(b) Section 4 of the Nation Building Tax Act, No. 9 of 2009	Out of the Nation Building Tax amounting to Rs.73,845,234 collected from the clients from the year 2009 to the year 2013 for remittance to the Department of Inland Revenue, a sum of

		Rs.67,718,361 or 90 per cent had not been remitted up to the end of the year under review.
(c)	Financial Regulation 371(2)(c) of the Democratic Socialist Republic of Sri Lanka	The advance of Rs.1,050,000 granted in the year under review for the purchase of equipment for the official motor vehicle of the Chairman had not been settled up to 31 December 2014.
(d)	Public Enterprises Circular No.17 of 28 October 2003	The Chairman had not obtained the prior approval of the Director General of Public Enterprises before proceeding abroad and a sum of Rs.1,422,353 had been spent from the Corporation funds for that foreign tour.
(e)	Public Enterprises Circular No. PED/12 of 02 June 2003	
	(i) Section 8.3	A sum of Rs.748,500 had been obtained in the year under review for the local travelling of the Chairman.
	(ii) Section 8.3.9	The Corporation had paid a sum of Rs.61,187 in the year under review for the settlement of mobile phone bills of the Ministry.
(f)	Paragraph 6 of the Public Enterprises Circular No. 57 of 11 February 2011	Even though donations exceeding Rs.2 million cannot be paid without the approval of the Minister of Finance, donations amounting to Rs.3,025,000 had been made in the year under review. Exercise books costing Rs.2,705,147 had been donated for sales promotion activities.

2.4 Uneconomic Transactions

The institution which had quoted the lowest price in connection with the purchase of 15 finger printing machines had been rejected without any basis and a loss of Rs.538,100 had been caused due to the purchase made from the institution which quoted the fourth lower price. A feasibility study of the accessories purchased had not been carried out.

3. Financial Review

3.1 Financial Results

The operating result of the Corporation for the year under review amounted to a pre-tax net profit of Rs.78,095,872 as compared with the corresponding pre-tax net profit of Rs.140,567,143 for the preceding year, thus indicating a deterioration of Rs.62,471,271 in the financial results. The decrease of the profit by Rs.20 million and the increase of operating expenses by Rs.58 million during the year under review had been the main reasons for the deterioration.

3.2 Working Capital Management

Liquidity Ratio	2013	2012	2011	2010
Current Ratio	1.41:1	1.44:1	1.28:1	1.19:1
Quick Assets Ratio	1.04:1	0.91:1	0.84:1	0.91:1

The following observations are made.

(a) A negative working capital position was indicated throughout and the short term loans obtained by the Corporation during the year under review amounted to Rs.494,089,476. Out of that Rs.437,919,681 had not been settled up to the end of the year under review. In view of the failure to settle the loans on the due dates, interest on short term loans inclusive of the additional interest for delays in settlement amounting to Rs.46,351,402 had been paid during the year under review. That represented 59 per cent of the pre-tax profit.

(b) In view of the increase in obtaining short term Bank loans and Bank overdraft facilitates, the finance costs of the year under review had increased to Rs.62,548,765.

(c) The management had not paid attention to the working capital improvement strategies. In view of the lack of efficiencies in debt collection and the failure to use stock control procedures, 88 per cent of the total current assets of the year under review comprised debtors and the closing stock of low liquidity.

(d) Out of the current assets in the quick assets, 83.2 per cent or Rs.750,607,688 represented debtors, of which Rs.70,739,757 comprised balances with 100 per cent non-recovery during the year 2013. As such the feasibility of settlement of current liabilities from the actual value reflected from the current assets, that is, the liquidity has become a problematic issue in audit.

4. Operating Review

4.1 Performance

The following observations are made.

4.1.1 Income

Income Head	2013	2012	Variance		Percentage
			Favourable	Adverse	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
School Textbooks Income (Net of Penalty)	750,660	711,473	39,187	-	6
Commercial Printing Income	244,649	259,124	-	(14,475)	(5.6)
Exercise Books Income	211,758	214,021	-	(2,263)	(1.1)
Other Income	32,056	40,544	-	(8,488)	(20.9)

4.1.2 Production

Categories of Production	2013		2012		Variance		Percentage	
	Units	Rs.'000	Units	Rs.'000	Units	Rs.'000	Units	Income
School Taxtbooks (000 copies)	9824		7,906		1,918			
Commercial Printing (Jobs)	799	666,676	721	593,896	78	72,780	24	12
Exercise Books (number of copies)	10,140	140,718	10,571	145,593	(431)	(4,875)	(4.1)	(3.3)

The commercial printing income, the exercise books income and other income of the Corporations for the year under review as compared with the preceding year indicated a decrease of Rs.26 million or 5 per cent. Even though the production of 13.7 million exercise books during the year under review had been planned the actual production amounted only to 10.1 million books.

4.2 Management Inefficiencies

The following observations are made.

(a) A sum of Rs.40,966,014 had been paid as penalty from the income receivable for the printing of school text books during the years 2012, 2013 and 2014 due to the failure to print and deliver the books on the due dates and non-conforming to the prescribed specifications.

(b) The Colour Separation Work, which is an important and primary aspect of all printing works of the Corporation, had been done through an outside institution since the year 2009 and a sum of Rs.22,336,329 had been paid for this work to the outside institution during the years 2009 to 2013. Even though a machine for this purpose had been purchased at a cost of Rs.9,514,302 in the year 2004 that machine had been out of order in the year 2009 within a very short period of five years. Even though the machine had been rendered out of order even before the expiry of less than half its useful life, the attention of the management had not been paid either to get the machine repaired through the institution from which it was purchased or for the purchase of a new machine.

4.3 Operating Inefficiencies

A Marketing Plan for the overall marketing activities of the Corporation in respect of the year under review had not been prepared while only a plan indicating the sales targets of exercise books and stationery had been prepared. The planned production targets of exercise books for the year under review had not been achieved. Out of the planned purchase of 962 metric tonnes of white writing paper (860mm / 60Gsm) which is the primary raw material required for achieving the targets, the management had failed to supply about 286 metric tonnes or 29 per cent.

4.4 Idle and Underutilised Assets

The following observations are made.

(a) Out of the machinery spare parts, purchased in the years 2012 and 2013 from a private institution at a cost of Rs.31,727,140 , machinery spare parts costing Rs.23,859,240 had not been used for repairs even by 31 December 2013. Even though the objective of the purchase had been the increase of production of the machinery at the optimum capacity, action had not taken to achieve the objection of the purchase of spare parts even after the elapse of one year after the purchase.

(b) A stock of spare parts costing Rs.2,118,090 purchased during periods ranging from 6 years to 15 years and a stock of spare parts purchased in the year 2011 at a cost of Rs.1,288,748 without carrying out a proper evaluation of the requirements had been lying idle up to the end of the year 2014 without being used.

(c) According to the reports on the utilization of machinery in the year under review, the idle time of Corporation machinery had been at a high ranges from 35 per cent to 78 per cent as compared with the budgeted hours. Out of 113.6 machinery idle hours, 84.3 hours or 74 per cent had been due to lack of jobs, 10.2 hours or 9 per cent had been due to breakdown of machinery and 13.6 hours 12 per cent had been due to lack of employees.

(d) Six machines of the Litho, Composing and Binding Sections had been idling throughout the year under review due to lack of adequate jobs.

(e) Five machines in the Litho, Process Computer and Letterpress Sections had been in broken down condition over a number of years and those had been idling due to the failure to repair them or use them by following a suitable course of action.

(f) A physical verification revealed that a stock of exercise books of different sizes manufactured from GSM 58 paper, valued at Rs.1,190,056, rendered unusable due to discolouration and rusted staples had been kept in the stores. Even though this matter was revealed through the reports for the preceding years, the management had failed to take a suitable course of action in that connection.

4.5 Identified Losses

The cash shortage of Rs.224,278 and the stock shortage valued at Rs.222,205 at the International Book Exhibition 2010 had been shown over and over again under the other recoverables without taking action for recovery of the shortage from the respective officers.

4.6 Deficiencies in the Contract Administration

(a) State Printing Corporation had purchased 2,381,255 metric tonnes of white printing paper web rails of 6 varieties in 11 instances for Rs.311.5 million. Out of this, 1,784.507 metric tonnes or 75 per cent had been purchase in 7 instances for Rs.234.6 million had been purchased from a foreign company through a local agent.

- Subsequently, it was revealed that the proprietor of the company which functioned as the local agent was a former personal assistant of the Chairman of the Corporation. The bids had been submitted through a person who had not been authorized to act in the name of that company in terms of Section 184 of the Companies Act, No. 7 of 2007. Even though the Procurement Committee should have rejected the illegal bid submitted fraudulently in terms of Section 7.8 of Procurement Guidelines, it had not been so done and paper value at Rs.234.6 million had been purchased from that supplier.

(b) Even though the papers should have been supplied within one month from the opening of the Letters of Credit, the supply of goods of 6 bids valued at Rs.200.5 million awarded to the supplier had been supplied after delays ranging from 12 days to 45 days. But liquidated damages had not been recovered. The supply of 09 school text books for the year 2014 had been delayed due to the delay in the supply of paper and the Corporation had paid a penalty of Rs.8,660,931 for the delay. A stock of 205 metric tonnes of paper valued at Rs.25,062,432 had been idling in the stores for about 8 months due to abandoning printing works due to the delay in the receipt of papers.

(c) The Performance Bond of Rs.2,660,490 obtained in connection with the purchase of a stock of paper valued at Rs.32,717,360 for production of exercise books had been released before the expiry of the period.

(d) In terms of Section 7.4.1 of the Procurement Guidelines bid evaluation should be undertaken expeditiously leaving ample time to seek all requisite formal approvals. Nevertheless, due to the delay in the bids for the purchase of 125 metric tonnes of white printing papers, purchases had to be made from the above institution which had submitted the fourth lower price, thus resulting in an overpayment of Rs.1,299,726.

4.7 Assets given to other Government Institution

Ten employees of the Corporation had been released to the Ministry of Mass Media and Information and the Ministry of Skills Development. A sum of Rs.3,018,894 had been paid during the year under review as their salaries, overtime and other allowances without obtaining reimbursement.

4.8 Staff Administration

The following observations are made.

(a) A post of Vice Chairman had been created contrary to the State Printing Corporation Act, No. 24 of 1968 and an officer had been appointed. He had been paid a sum of Rs.768,191 as allowance, settlement of telephone bills and foreign travel expenses. In addition, a new post of Operating Manager (HM 1-1) had been created and as appointment made without obtaining formal approval.

(b) Action had not been taken to fill 118 vacancies in the approved cadre of 686 of the Corporation. Formal approval had not been obtained for 32 excess employees recruited. Three casual employees, 57 employees on contract basis and 38 temporary employees had been recruited outside the approved cadre.

(c) A person had been recruited on contract basis to the post of Marketing Promotion Officer of the Central Provincial Marketing Development Pilot Project without the approval of the Department of Management Services and had paid a monthly allowance of Rs.20,000 without assigning any specific duties. His mobile telephone bills amounting to Rs.50,412 had also been reimbursed during the year under review.

(d) Even though it was subsequently found that the officer who had been recruited as the Internal Auditor of the Corporation had concealed matters relating to the profession and the recruitment from the Board of Interview which selected him, disciplinary action had not been taken against the officer.

4.9 Motor Vehicles Utilisation

The following observations are made.

(a) According to the letters No. PE/COPE/37/GEN dated 08 April 2013 and 17 April 2013 of the Director General of the Department of Public Enterprises, purchase of motor vehicles for the year 2013 should be according to the Annual Budget and the Procurement Plan approved by the Board of Directors. Even though, according to the Capital Estimates for the year under review had allocated a sum of Rs.10,000,000 for the purchase of 02 motor vehicles a sum of Rs.17,630,000 had been spent for the purchase of 02 motor vehicles.

(b) According to Section 8.3.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Chairman should use one motor vehicle as the official motor vehicle. Nevertheless, the Chairman had used 03 motor vehicles in addition to the official motor vehicle. A sum of Rs.509,566 had been spent in the year under review for the fuel used for the motor vehicles used by the Chairman.

(c) A motor vehicle hired for Rs.1,320,000 had been provided to an officer acting in the post of Manager, Establishments of the Corporation who is not entitled to official motor vehicle facilities in terms of paragraph 1.1.6(v) of the Public Administration Circular No. 22/99 of 08 October 1999 and had paid a fuel allowance of Rs.1,141,655 during the period, January 2011 to October 2013.

(d) Fuel allowance amounting to Rs.558,023 in respect of the period from the year 2010 to December 2013 had been paid to an Acting Marketing Promotion Officer recruited on contract basis in accordance with the decision No.5034 of 15 July 2010 of the Board of Director. The Daily Running Charts had not been produced for obtaining payment on bills.

(e) Even though recommendation had been made for the withdrawal from running with effect from February 2013 the motor cycle issued to the Security Manager of the Corporation, it had not been handed over to the Corporation and retained in the official quarters. A sum of Rs.36,254 had been paid as fuel expenses for running the motor cycle without supporting Daily Running Charts.

(f) Even though the Financial Regulations require the maintenance of Motor Vehicle Log Books for all motor vehicles, the Log Books of Motor Vehicles of the Corporation had not been maintained properly.

5. Accountability and Good Governance

5.1 Corporate Plan

Even though a Corporate Plan for the years 2009 to 2013 had been prepared by the Corporation, that plan had not been updated annually in terms of Section 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

5.2 Budgetary Control

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

5.32 Audit Committee

Even though a proposal had been made at the meeting of the Audit and Management Committee held on 28 August 2013 that the debts receivable from the credit sale of exercise books should be recovered expeditiously and that a proper methodology for that should be formulated, it had not been so done.

6. 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) Budgetary Control
(b) Accounting
(c) Accounts Receivable
(d) Debtors Control
(e) Procurement
(f) Working Capital Management
(g) Motor Vehicles Control
(h) Staff Administration