State Printing Corporation - 2015

The audit of Financial statements of the State Printing Corporation for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that, I comply with the 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 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 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 2015 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 Sri Lanka Accounting Standards

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

(a) **Sri Lanka Accounting Standard 01**

Even though the assets and liabilities should not be set off each other except at the event of giving permission or when required through the accounting standard, total credit balance of Rs.4,409,866 had been deducted from the total debtor balance of Rs.499,251,402 receivable from the public and private sectors as at the end of the year under review and only the Net debtor balance of Rs.494,841,536 had been disclosed in the financial statements.

(b) **Sri Lanka Accounting Standard 02**

In computing the closing stocks, it should be measured at the cost or the net realisable value whichever is less and stated in financial statements. Nevertheless, the Corporation had not assessed on the net realisable value of the closing stock.

(c) **Sri Lanka Accounting Standard 08**

(i) Instead of taking action to adjust retrospectively the corrections of errors related to preceding years by the Corporation and to restate the financial position of the preceding year, prior period adjustments amounting to Rs.11,914,381 had been shown in the statement of changes in equity and the information thereon had not been disclosed.

(ii) Even though the assets costing Rs. 200,033,440 had been fully depreciated due to not reviewing annually the effective life for the non-current assets, they had been further in use. Accordingly, action had not been taken to revise the estimated error.

(d) **Sri Lanka Accounting Standard 16**

Details of obtaining a loan amounting to Rs.624,552,578 by keeping lands, buildings, and plants as security and the nature of the mortgage had not been disclosed in the financial statements.

2.2.2. Accounting Deficiencies

The following observations are made.

(a) No provisions had been made in the financial statements for penalty charges amounting to Rs.28,496,348 revealed at audit test check carried out on penalty charges payable due to not handing over the printed school text books on the prescribed date to the Education publications Department.

(b) Depreciation for property, plant and equipment had been understated by Rs.1,586,947 for the year under review due to computation errors.

(c) Even though impairment of 2.5 per cent out of the total trade debtors had been provided for debtors, it was observed that the amount provided was in sufficient as there was a probability that it could not be recovered since a sum of Rs.64,551,594 of the total debtors had been lapsed for over 5 years.

2.2.3. Unexplained differences

According to the financial statements of the year under review, a difference amounting to Rs.259,741 was observed between the payment for unvalued leave amounting to Rs.16,937,575 and the balance of Rs.16,677,834 according to the schedule.

2.2.4. Lack of Evidence for Audit

The evidence indicated against the each following item was not made available for audit.

	Description	Value (Rs.)	Evidence not presented
(a)	Trade debtors	673,119,568	Debtors Control Account and Debtors Individual Accounts
(b)	Trade Creditors	53,840,285	Confirmation of balances, Creditors' Individual Accounts and Creditors Control Account
(c)	Other creditors	1,076,244	Ledger Accounts and Balance Confirmations.

2.3. Accounts Receivable and Payable

The following observations are made.

(a) Credit balance in arrears totalling Rs.64,551,594 over 05 years had remained in the trade debtors' balance amounting to Rs.673,119,568 as at 31 December in the year under review.

(b) Trade creditors' balance as at 31 December in the year under review was Rs.53,840,285 and according to the age analysis of the creditors, the value of creditors unsettled between 2 to 5 years was Rs.17,865,079. This represented 33 per cent of the total creditors.

(c) A sum of Rs. 9,753,427 had to be recovered from the National Paper Company as at 31 December in the year under review and the amount payable to the Paper Company by the Corporation was Rs.7,460,675. Even though the amount of credit over 02 years was sums of Rs.7,989,976 and Rs.5,578,142 respectively in these credit balances, action had not been taken to identify these transactions and to settle such balances.

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

The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed in the audit.

Reference to Laws, Rules, Regulations and Management Decisions etc.	Non-compliances
(a) Subsection (26) (1) of Value Added Tax Act, No.14 of 2002.	Even though the value added tax should be remitted to the Commissioner General of Inland Revenue prior to the last date of the month following the end of the tax recoverable period, Value Added Tax totalling Rs.35,230,511 from the year 2012 to the end of the year under review had not been remitted even by 31 January 2016.
(b) Section 4 of Nation Building Tax Act, No.09 of 2009.	Even though the Nation Building tax related to each quarter should be remitted to the Commissioner General of Inland Revenue prior to the twentieth day of the month following the end of the relevant quarter, Nation Building Tax totalling Rs.62,426,710 for the period between the year 2010 to the 2015 had not been remitted even by 31 December 2015.
(c) Section 8.7 of Public Enterprises Circular No. PED/12 dated 02 June 2003	PAYE tax amounting to Rs.853,371 payable for the year under review by the officers of the Corporation had been paid from the Corporation Fund.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, financial results of the Corporation for the year ended 31 December of the year under review was a surplus of Rs.2,111,384 as compared with the corresponding surplus of Rs.41,530,670 for the preceding year, thus indicating a deterioration of Rs.39,419,286 in the financial results. The decrease of the sales income by Rs.33,517,802 in the year under review as compared with the preceding year had mainly attributed to the deterioration of financial result.

In analyzing the financial results of the year under review and preceding four years a surplus could be observed from the year 2011 to 2015 and it had gradually decreased from the year 2013. But when taking into consideration the employees' remuneration, government taxes and the depreciation for non- current assets, contribution of the Corporation in the year 2011 amounting to Rs.468,656,443 had increased gradually and it had amounted to Rs.565,260,550 in the year 2015.

3.2 Analytical Financial Review

The following observations are made.

(a) The gross profit ratio had decreased from 34 to 29 per cent as compared with the preceding year and a deterioration of the profitability of the Corporation was observed due to decrease of net profit ratio from 5 per cent to 0.2 per cent.

(b) Interest coverage ratio of the year under review had deteriorated from 2.12 terms to 1.1 terms as compared with the preceding year due to deterioration of pre-tax profit in the year under review.

4. Operating Review

4.1 Performance

The objectives of the Corporation summarized according to the State Printing Corporation Act, No.24 of 1968 and the amended Acts introduced thereafter are given below.

(a) To carry out printing work or publishing work required by the Government, local bodies, Public Corporations incorporated by a written law, statutory Boards, Private institutions, or an individual;

(b) To undertake manufacturing, importing exporting, purchasing, sale of stationery and other consequential materials.

(c) To undertake the sale, distribution, exporting and importing books, education assisting newspapers, magazines and other publications printed or published by the Corporation or any other Institution in Sri Lanka.

4.2 Management Activities

Stock of stationery in the year under review as compared with the closing stock of stationery amounting to Rs.39,518,977 in the preceding year had increased by Rs.17,648,818 representing 44 per cent due to manufacturing of stationery without a proper preparation of marketing plans.

4.3 Idle and Underutilized Assets

Stock of exercise books of sale price of Rs.4,770,110 manufactured in the years 2012 and 2013 had remained unsold even by January 2016 due to preparation of manufacturing plans without the market forecast and this stock of exercise books had become of low quality at present.

4.4 Transactions of contentious nature

Two officers of the Corporation had been attached on the basis of payment of commission without an approval of the Board of Directors for recovery of old credit in arrears. Payment of commission amounting to Rs.246,509 had been made during the year under review for the recovery of the loan related to the years 2013 and 2014 instead of recovery of old credit balances in arrears.

4.5 Identified losses

A stock of papers costing Rs.461,037 had been damaged due to not storing properly the stocks of papers required for printing books and stationery of the Corporation and a loss of Rs.367,281 had incurred due to sale of such stock at the cost of Rs.93,756 in the year under review.

4.6 Resources of Corporation made available to other public Institutions.

An extent of 13 Acres 2 roods 06 perches from the land of the Corporation had been vested to the Industrial Development Board without regularity.

4.7 Personnel Administration

Even though a Marketing Research Officer had been appointed on 01 November 2013 for observation of market behavior and carrying out market research, any market research had not been done in the year under review.

5. Accountability and Good Governance

5.1 Budgetary Control

Variations ranging from 20 per cent to 100 per cent of budgeted and actual expenses were observed related to 36 items of expenditure thus it was observed that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses in the system of financial control related to up- to-date balance of cash book, preparation of Bank Reconciliations and banking money were brought to the notice of the Chairman of the Corporation.