State Printing Corporation – 2016

The audit of Financial Statements of the State Printing Corporation for the year ended 31 December 2016, comprising the statement of comprehensive income, statement of financial position, statement of changes in equity , cash flow statement , a summary of significant accounting policies and other explanatory information for the year ended 31 December 2016, was carried out under my direction in pursuance of provisions in Article 154(1) 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

The 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 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 judgement, 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 Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial position of the State Printing Corporation as at 31 December 2016, and its financial performance and cash flows for the year then ended, do not give a true and fair view 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 during the course of audit.

(a.) Sri Lanka Accounting Standard 01

(i) Assets and liabilities should not be set off against each other unless otherwise required or authorized by Accounting Standards. However, the credit balance of Rs. 5,294,106 had been deducted from the loan balance of Rs. 732,679,823 receivable from both the Public and private sector by the end of the year under review, thereby showing only the net loan balance of Rs.727,385,717 in the financial statements.

(ii) Revelations should be made with respect to the nature of reserves included in the capital, and the objectives of maintaining them. Nevertheless, no such revelations had been made in respect of the capital reserves, general reserves and development reserves, etc. being maintained by the Corporation.

(b.) Sri Lanka Accounting Standard 07

(i) The cash flow statement had been balanced by including an adjusted balance of the prior year amounting to Rs. 38,327,278.

(ii) As the following weaknesses were observed in the cash flow statement presented along with the financial statements, the accuracy thereof remained questionable in audit.

- A sum of Rs. 30,000,000 had been paid by the Corporation to the Department of Inland Revenue during the year as income tax, but the sum shown in the cash flow statement had been Rs. 25,000,000.

- Flow of cash for purchasing assets under the investment activities should have been Rs. 37,941,634. However, the value had been shown as Rs. 36,160,264, and as such, cash flows had been understated by a sum of Rs. 1,781,370.

- The increase in the short term loans on which interest should be paid, had amounted to Rs. 99,537,720 by the end of the year under review, but that value had been shown as Rs. 86,782,343. Hence, the cash flow generated from the financial activities had been understated by a sum of Rs. 12,755,377.

(c.) Sri Lanka Accounting Standard 08
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Without restating the financial position by adjusting the rectification of errors in prior years retrospectively, the corporation had shown the effect of Rs. 73,242,347 caused on the profit through the adjustments of the prior years by deducting it from the retained earnings in the statement of changes in equity of the year under review.

(d.) Sri Lanka Accounting Standard 12
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Underallocations /overallocations, and differed tax income/expenditure relating to the preceding year should be identified as expenditure on income tax included in the expenditure on taxes of the current year. Nevertheless, only the expenditure on taxes of the current year had been identified as the tax expenditure of the Corporation, and the following observations are made in that connection.

(i) The underallocation on taxes with respect to the year 2015 amounted to Rs. 11,536,948, and that value had been debited to the retained earnings by the Corporation, thus overstating the post-tax profit of the year under review by a sum of Rs. 11,536,948.

(ii) The accounting policy on the accounting of differed taxes, had not been disclosed in the statements. Specifically, the temporary differences, and permanent differences that arose in the computation of taxes, had not been identified and disclosed in the financial statements.

(e.) Sri Lanka Accounting Standard 16

(i) When motor vehicles and other vehicles are revalued, all the items relevant to the said class of assets, should be revalued. Nevertheless, motor vehicles and other vehicles valued at Rs. 1,420,429 had not been revalued.

(ii) The date that the motor vehicles and other vehicles had been revalued on , had not been disclosed in the financial statements.

(iii) When the revalued amount exceeds the carrying amount as a result of the revaluation of assets, the value in excess should be identified in the other comprehensive income, and the profits of revaluation should be shown under a Head named "reserves of revaluation" in the statement of changes in equity. However, the profit from the revaluation of motor vehicles and other vehicles had been identified under retained earnings whilst the profit of revaluation had not been identified as other comprehensive income. As such, the total of the comprehensive income had been understated by a sum of Rs. 36,015,363, whereas the retained earnings had been overstated by that value.

(iv) As the useful life of non-current assets had not been revised annually, assets costing Rs. 183,762,693 had still been in use despite being fully depreciated, and action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.

(f.) Sri Lanka Accounting Standard 19
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A general description on the retirement benefit plan relating to accounting the retirement benefits, particulars on the adjustment of current value with respect to the initial and final balances, current service costs, actual gain or loss on the interest, and the previous service costs, had not been identified and how the profit or loss thereof had been adjusted, had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

(a.) The finished goods, and goods in progress shown in the financial statements had been erroneously overstated by a sum of Rs. 15,000,000 in contrast with the finished goods and goods in progress existed in accordance with the reports of the closing stocks as at 31 December of the year under review. As such, the profit of the year under review had been overstated by that value.

(b.) The invoice value of Rs. 41,454,000 in respect of 02 printing works that had been completed in the month of December of the year under review, had been accounted as an income. However, a sum of Rs. 966,514 from the printing cost of the said printing work had been included in the closing goods in progress, whilst 92,117 Kg of papers valued at Rs. 10,898,322 had been included in the stock of raw materials. As such, the profit of the year under review had been overstated by a sum of Rs. 11,864,836.

(c.) As the Value Added Tax of Rs. 31,511,137 included in the income from the sale of stationeries, had been considered as stationery income, the profit of the year under review had been overstated by that value.

(d.) It was revealed in the audit test checks that late payments amounting to Rs. 26,007,297 had to be paid due to failure in handing over the school text books to the Educational Publications Department on time after being printed. However, only a sum of Rs. 3,571,658 had been provisioned in the accounts in that connection.

2.3 Accounts Receivable and Payable

The following observations are made.

(a.) The Corporation had failed to recover a loan balance older than 04 years totalling Rs. 82,045,046. That had represented 11 per cent of the debtor balance of Rs. 703,301,233 recoverable as at 31 December of the year under review.

(b.) The creditor balance amounted to Rs. 80,124,336 as at 31 December of the year under review, and of that, the value of the creditors that had remained unsettled over 04 years, amounted to Rs. 11,016,563 indicating 14 per cent.

(c.) The balances included in the paragraphs (a) and (b) above that had remained recoverable and payable from and to the National Paper Company Ltd by the end of the year under review, amounted to Rs. 9,753,427 and Rs. 7,460,675 respectively. The balances older than 03 years included therein amounted to Rs. 7,989,976 and Rs. 5,578,142 respectively, but action had not been taken to settle those balances.

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

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

Reference to Laws, Rules, and Regulations	Non-compliance
(a.) Section 59 of the Factories Ordinance, No. 45 of 1942	A fire alarm system had not been installed. The employees had not been provided with adequate training on how to cope with fire and safety precautions.
(b.) Public Enterprises Circulars	
(i) Section 4.2 of the Circular, No. PED1/2015, dated 25 May, 2015	Contrary to the provisions of the Circulars, a sum totalling Rs. 691,250 had been paid for the period October - December 2016 to 14 managers of the middle level of the Corporation at a monthly sum of Rs. 17,500 per officer who had been entitled to group transportation.

	Section 3.2	In instances where the monthly fuel allowance is not adequate to perform duties, it is stated that the actual expenses incurred on fuel can be reimbursed by obtaining the approval of the Board of Directors. Nevertheless, the expenses on additional fuel of the General Manager, had been reimbursed by the Corporation prior to obtaining the approval.
(ii)	Section 9.4 of the Circular, No. PED/12, dated 02 June, 2003.	An employee of the Corporation should not be released to a Ministry or other institution without approval of the Cabinet. Nevertheless, an officer in the post of Management Trainee, had been attached to the North Western Provincial Council with effect from 01 April 2008.
(iii)	Sections 01, 02, and 03 of the Circular, No. PED/05/2016, dated 16 December, 2016.	Without obtaining the approval of the Board of Directors for paying bonus, a sum of Rs. 53,029,119 had been paid as bonus for the year under review only on the recommendation of the Chairman of the Corporation.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Corporation for the year ended 31 December of the year under review had resulted in a surplus of Rs. 943,720 as compared with the corresponding surplus of Rs. 2,111,384 for the preceding year, thus observing a deterioration of Rs. 1,167,664 in the financial result. As compared with the preceding year, the increase in the cost of sales, distribution expenses, and other operational expenses by sums of Rs. 152,393,746, Rs. 8,761,123, and Rs. 7,007,387 respectively had mainly attributed to the said deterioration in the financial result.

An analysis on the financial results of the year under review and the 04 preceding years revealed that a surplus had resulted in from the year 2012 up to the year 2016, but the said surplus had exponentially decreased from the year 2012 up to the year under review. However, when the employee remuneration, Government taxes, and depreciation on non-current assets had been adjusted to the financial result, the contribution of the Corporation for the year 2012 amounting to Rs. 469,013,635 had continuously improved and reached Rs. 599,107,326 by the end of the year under review.

4. Operating Review

4.1 Performance

The objectives of the Corporation summarized in terms of the State Printing Corporation Act, No. 24 of 1968, and the Acts amended thereon, are given below.

(i) To carry out any printing work or any printing and publishing work required by the Government, local bodies or any corporation established by law or any board established by or under any law.

(ii) To undertake the manufacture, import, export, purchase, or sale of stationeries, and other related products.

(iii) To undertake the sale, distribution, export, and import of books, educational aids, newspapers, magazines and other publications printed or published by the Corporation or by any other institution in Sri Lanka.

The following matters were observed during the examination carried out on the performance in achieving the aforesaid objectives in the year under review.

(a.) The income generated through the activity of undertaking the sale, distribution, export, and import of books, educational publications, newspapers, magazines and other publications printed or published by the Corporation or by any other institution in Sri Lanka during the period 2011 – 2016 represented 0.01 – 0.08 per cent of the total income of the Corporation. Hence, it was observed that the Corporation had not drawn adequate attention to achieve those objectives.

(b.) An income amounting to Rs. 1,090,385,915 had been received from the Educational Publications Department, and the Lotteries Board in the year under review for printing the school text books and lotteries respectively. That income represented 74 per cent of the total income of the year amounting to Rs. 1,477,236,807. Hence, it was observed that the Corporation had not diversified its sources of income.

(c.) Despite being planned to conduct 23 training programmes for the officers of the Corporation, only 10 of those programmes had been conducted in the year under review.

4.2 Transactions of Contentious Nature

Despite being informed by 02 private institutions that no balance whatsoever remained receivable to them in accordance with the verification of balances as at 31 December of the year under review, a sum totalling Rs. 1,180,993 had been provisioned in the accounts in order to pay to those institutions by the Corporation.

4.3 Management Activities

The following observations are made.

(a.) A marketing plan had not been prepared for the year under review ensuring the proper achievement of the targets of sales, and the smooth functioning of the Marketing Division.

(b.) Even though barcodes had been printed on the excise books being printed by the Corporation by paying a registration fee of Rs. 10,000 to a private institution annually since the year 2010, the activities relating to sales could not be performed efficiently as the sales outlets of the Corporation had not been provided with the infrastructure required to use the barcodes.

(c.) Twelve sales outlets belonged to the Corporation, but the employees therein had not been provided with any training whatsoever relating to the sales management in the year under review or the preceding years.

(d.) It is a best management practice to increase the income of the sales income of the outlets, motivate the employees by increasing their efficiency, and progressively increase the annual sales targets. However, the targets set for 06 sales outlets of the Corporation in the year under review had been decreased in the range of Rs. 1,000,000 to Rs. 5,500,000 as against the preceding year.

(e.) The State Printing Corporation, being functional in a competitive market, had not conducted a market survey in the year under review or the preceding years with respect to their excise books, publications, and other industrial level printing activities.

4.4 Operating Activities

The following observations are made.

(a.) Six of the 10 sales outlets that had been in existence since the previous years, had not accomplished 12 – 65 per cent of their targeted sales in the year under review. Three sales outlets had been continuously sustaining losses from the year 2013 up to the year 2016, and the annual loss ranged from Rs. 160,550 to Rs. 1,556,829.

(b.) Five old machines in the lithographic division had broken down for 1999 machine hours during a period of 05 months from August to December 2016, the period in which the school text books for the year 2017 had been printed. As such, the printing of school text books had been stymied.

4.5 Resources of the Corporation Released to Other Government Institutions

An extent of 13 acres, 02 roods, and 06 perches from the land at *Panaluwa* in *Padukka* owned by the Corporation, had improperly been vested in the Industrial Development Board for the establishment of an industrial park.

4.6 Staff Administration

The following observations are made.

(a.) Ten managers in the top and middle levels had been scheduled to be retired within the 03 ensuing years, but no succession plan had been prepared by the Corporation for the said posts.

(b.) The post of Marketing Research Officer, a post that helps increase market share, and obtain printing orders from the competitive printing field, had remained vacant from 18 January 2016 up to the end of the year under review.

(c.) Thirteen employees had been appointed permanently to the unapproved post of Press Aide in the year under review. By the end of the year under review, 212 persons had been employed in the post of Junior General Production Employee that had remained unapproved along with the post mentioned above.

5. Accountability and Good Governance

5.1 Budgetary Control

Comparing the budgeted expenditure with the actual expenditure, variances ranging from 20 per cent to 140 per cent were observed in respect of 29 Items of Expenditure. As such, the Budget had not been made use of as an effective instrument of management control.

5.2 Tabling of Annual Reports

The Annual Reports of the Corporation for the years 2012 to 2014 had not been tabled in Parliament in terms of Section 6.5.3 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.

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 on the preparation of financial statements in accordance with the Sri Lanka Accounting Standards, and Sri Lanka Financial Reporting Standards.