

Paranthan Chemicals Company Limited – 2017

The audit of the financial statements of the Paranthan Chemicals Company Limited for the year ended 31 December 2017, comprising the statement of financial position as at 31 December 2017 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 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. I was assisted by a Firm of Chartered Accountants in public practice to carry out this audit. My comments and observations on the operations of the Company of the year under review which I consider should be presented to Parliament in terms Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors 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 Board 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. 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 Company’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 Company’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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Paranthan Chemicals Company Limited as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on other legal and regulatory requirements

As required by Section 163(2) of the Companies Act, No.07 of 2007, I state the followings:

(a) The basis of opinion and scope and limitations of the audit are as stated above.

(b) In my opinion :

- I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.

- The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

2.3 Accounts receivable

Provision for bad and doubtful debts for the year under review is Rs. 9,632,553 an action had not been taken to recover the recoverable amount of Rs. 1,387,445 as at the last date of the year under review from the National Water Supply and Drainage Board be the main buyer of the company, the provision had been made as bad and doubtful debts.

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

In terms of the Section 8.2.2. of Public Enterprises Circular No PED/12 dated 02 June 2003 and Para 08 of the recommendations of meeting of COPE held on 04 March 2013, the amounts in excess should have been invested as per the concurrence of the Minister of Finance and the relevant Minister. However an amount of Rs. 135,000,000 had been invested in fixed deposits in the year under review on the approval of competent authority of the company but without obtaining relevant approvals..

3. Financial Review

3.1 Financial Results

According to the Financial Statements presented, the financial result of the Company for the year under review was net profit of before tax Rs. 99,899,337 as compared with the corresponding net profit of before tax of Rs. 61,029,489 for the preceding year thus indicating an improvement of Rs.38,869,848 in the financial results during the year under review as compared with the preceding year. The main reason for the above growth is the increase in gross profit by Rs. 33,958,461.

4. Operational Review

4.1 Performance

4.1.1 Functions and review

Following observations are made.

- (a) Even though the Company has made its vision 'To be the pioneer in manufacturing chemicals' the Company has not manufactured any chemical from year 1985 but importation and selling of chemicals have been the main function of the Company. Accordingly the Company has fulfilled 81 per cent from its total income by way of selling liquid chlorine, which is the main source of income of the Company, as an export item. Nearly 76.5 per cent from imported chlorine is applied for the purification of water in National Water Supply and Drainage Board and a small amount i.e. 23.5 per cent is utilized for other requisites.

- (b) Even though the action plan for year 2017 has been prepared the annual progress of that had not been prepared. When preparing the action plan, the internal audit plan had not been included in the plan in terms of Para 5 (2) of Public Finance Circular No. 01/2014 dated 17 February 2014. Further the activities of the Company have been identified in the action plan under each division. However it was found in the inspection held on their implementation that programs have not been implemented to maintain a stable price for supply of chlorine to Water Drainage Board, increase the limit of loans, introduction of liquid chlorine for new water projects, issuance of chlorine for industries, which use other chemicals, and implement a plan for the protection of buyers even though such programs have been planned.

4.2 Management Activities

The administration of the Company has been brought under a Competent Authority from 25 September 2015 and no Board of Directors has been appointed up to 31 December 2017, which is the date of the audit. Under such circumstance, it has become impossible to hold the annual general meeting of the Company as per the Section 133 (1) of the Company Act No. 07 of 2007.

4.3 Operational Activities

Following observations are made.

- (a) The production of chlorine in the manufactory at Paranthan has been terminated from the year 1986 and as a result of this situation, the institution has taken action to satisfy the necessity of the country by way of importing the total requirement of Caustic Soda and Chlorine. The production of the manufactory has not been commenced again.

- (b) An expenses to the value of Rs. 3,065,834 has been born in the years 2016 and 2017 for the implementation of project for the production of liquid caustic soda at Nagoda in Kalutara area purchasing of required machinery for the project and bringing these machinery to running condition. By this project, 2,320 metric tons of caustic soda have been produced during the year 2017 but the production process of caustic soda has been stopped since June 2017 due to machinery breakdown. However the production process of the Company has not been commenced again even by 31 July 2018.

4.4 Idle Assets

Following observations are made.

- (a) The office building and two other small buildings, which have been built at Kalutara area spending Rs. 25,000,000 to establish new refinery for refining chlorine, were kept idle from the year 2009 without utilizing for the relevant activities.
- (b) Two current account balances totalling Rs. 101,693, had been held in idle without being utilizing for a time ranging from 2 years to 3 years.

4.5 Staff Administration

Following observations are made.

- (a) In terms of the provisions in Section 2.5.1., Chapter V of the Establishments Code, the period of temporarily release of an officer should be restricted for a period of 02 years, the Deputy General Manager of the Company has been released from the year 2002 up to 31 July 2018 to serve in other government institutions.
- (b) Action has not been taken to reimburse from the Ministry, the salary paid to the female officer for the years 2016 and 2017 amounting to Rs. 926,822 who had transferred to Ministry of Industries and Commerce on disciplinary actions from the month of June 2016.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every government institution should take action as per the Agenda 2030 for sustainable development of United Nations and the Company was aware of the way in which it has to perform its tasks fallen under the scope of Company in relation to the year under review.

- (a) As a result of understanding gained by the Company on agenda 2030, the Company has identified good health practices, good conduct, pure water and sanitary as the objectives to be achieved by Company under its scope.
- (b) Even though government and private institutions, civil organizations can be identified as the parties interested in the role of the Company in the implementation of the goals of sustainable development, the Company has not taken any action to identify such institutions. It was further observed that a participatory approach is not ensured in

setting of relevant targets of the institution as a result of non identification of institutions.

- (c) Since there was no proper coordination with certain institutions when preparations were made to achieve the goals of sustainable development, it was observed that the process for preparing plans and making prior preparations to reach targets was at a poor level.
- (d) The tasks identified by the Company to reach the targets of sustainable development have not been included in the annual plan and further the financial allocations required to perform such tasks have not been included in the annual budget.

6. Accountability and good governance

6.1 Procurement and contract administration

6.1.1 Procurement

Following observations are made.

- (a) Action has not been taken to include procurements expected for a period of 3 years in the main procurement plan prepared as per guideline 4.2. of Procurement Guideline 2006 and action has not been taken also to update the procurement plan within a period of not more than 06 months.
- (b) Action has not been taken as per Guideline 4.2.3. of Procurement Guideline 2006 to prepare a time table , which clarifies systematically the steps from the commencement of procurement works up to the ending point regarding goods, services and works.

6.1.2 Weaknesses of contract administration

The contract for repairing the building of the Head Office has been entrusted part by part to the Government Factory without preparing a total cost estimate but calling estimates and without entering in to agreements as per guideline 4.3. of Procurement Guideline. Accordingly an estimated amount of Rs. 2,276,655, which is the total value of the contract for partitioning and fixing newly aluminum doors and windows, has been paid as a lump sum amount. However the works of the contract have not been completed even by 31 July 2018, which is the date of audit.

6.2 Tabling annual reports

In terms of Para 6.5.3. of Public Enterprises Circular No. PED/12 dated 02 June 2003, annual reports of the Company should be tabled at the Parliament within 150 days from the end of the financial year. However annual reports for year 2015 and 2016 have not been tabled as at 31 December 2017 at the Parliament accordingly.

7. Systems and control

The weaknesses of systems and control observed in the auditing have been brought under the attention of the Competent Authority of the Company. However special attention should be paid to the following areas of control.

Area of Systems and control -----	Observations -----
(a) Debtors control	Not taking action to recover loan balances, which are remaining without settling for a long time.
(b) Maintenance of books and registers	Non reconciliation of main inventory with sub inventories from time to time and non maintenance of stock registers and non maintenance of files in the proper way
(c) Accounting	(i) Making journal entries without proper approval by the officers at the time of preparing financial statements , who prepare financial statements (ii) Non revaluation and accounting of Vehicles
(d) Stock control	(i) Not taking action to identify and deal with expired, non moving and slow moving stocks (ii) Differences existing between the balance of physical stock and balance shown in financial statements (iii) Physical verification of stock had not been made for all stocks belonging to the Company