State Printing Corporation – 2017

The audit of Financial Statements of the State Printing Corporation for the year ended 31 December 2017, 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 2017, 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 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 2017 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 Financial Reporting Standards (SLFRS)

The following information needed for the evaluation of the nature and size of the risks arisen had not been disclosed in terms of Paragraphs 31 and 33 of Sri Lanka Financial Reporting Standards 07 as at the end of the year under review from the Financial Instruments of the Corporation.

- Objectives and policies of the Financial Risk Management of the Corporation
- Financial Risk and the types of the risk to be occurred

2.2.2 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) Although it was needed to disclose with regard to the nature, objective of carrying out the reserves consisted in the capital etc. in terms of the Paragraph 79 (b) of the Standard, disclosures had not been made in respect of the Capital Reserves amounting to Rs. 102,491 , the General Reserves amounting to Rs. 1,000,000 , and the Development Reserves amounting Rs. 13,901,142 and the Revaluation Reserves amounting to Rs. 701,192,812 which are being maintained by the Corporation .

(ii) The value of the Letter of Credit which was opened for the purchase of papers amounted to Rs. 6,648,040 by the Corporation by the 31 December 2017 in terms of Paragraph 125 of the Standard had not been disclosed in the financial statements.

(b) Sri Lanka Accounting Standard 07

(i) The decrease in the balances of trade creditors and other creditors consisted in the changes in working capital in the cash flow statement , a sum of Rs. 358,925 had been understated and even though the decrease in trade debtors and other debtor balances consisted in the changes in working capital in the cash flow statement was Rs. 142,927,462 according to the statement of financial position presented, it had been shown as Rs. 142,827,462 .

(ii) Although the cash flow statement was balanced showing a suspense balance amounted to Rs. 3,010,982 under operational activities as prior year adjustment which was not included in the statement of financial performance as an amount received, a sum of Rs. 111,345 had been included within that unidentified adjustments.

2.2.3 Accounting Deficiencies

Even though the value of the machineries and equipment of the Litho Division according to the Valuation Reports prepared by the Department of Valuation in the year under review was Rs. 146,820,000 since the valuation amount of machineries and equipment of the Litho Division in the financial statements were Rs. 40,000,000 , the value of the property, plant and equipment of the year under review had been understated by Rs. 106,820,000. As a result of understating the Revaluation Reserves by Rs. 106,820,000 and understating the annual depreciation by Rs. 8,011,500 the loss of the year under review had been shown understated in the financial statements by Rs. 8,011,500 .

2.2.4 Unreconciled Control Accounts

A Reconciliation Statement for the reconciliation of the balances in the Creditors Control Account and the Ledger for creditors had not been prepared and it was observed that the balance of creditors was higher than the balances in the Ledger accounts for creditors shown in the financial statements in the year under review by Rs. 1,456,119. Further, a creditor of Rs. 1,941,784 in the Ledger for creditors had been entered in to the Register of Creditors as Rs. 194,178 .

2.2.5 Unexplained differences

The following observations are made.

(a) Even though it had been informed by the Department of Government Press a sum of Rs. 10,535,542 was receivable to that Department as at 31 December in the year under review according to the balance confirmations , the provisions had been made in the accounts as only a sum of Rs. 2,754,825 payable for that Department by the Corporation.

(b) Even though it had been informed according to the balances of confirmation as at 31 December in the year under review by the Department of Statistical and Census as there was no any loan balance to be paid by that Department to the Corporation, as the provisions had been made in the accounts of the Corporation a sum of Rs. 11,836,011 was payable to the Corporation by the Department.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The total creditor balance as at 31 December in the year under review was Rs. 53,905,998 and according to the creditors' age analysis a value of Rs. 10,056,845 out of that were unsettled loan balances remained in the year 2013 and before that. That was 19 per cent out of the total creditors.

(b) The Corporation had failed to recover a trade debtor balance for more than 04 years totalled to Rs. 147,033,354 and that was 28 per cent out of the debtor balance receivable amounted to Rs. 527,327,575 as at 31 December in the year under review.

(c) A sum of Rs. 9,753,427 had been receivable to the Corporation from the National Paper Corporation and the amount payable to the Paper Corporation from the Corporation had been Rs. 7,460,675 as at the end of the year under review. Although the loan amount consisted in these balances for more than 04 years were Rs. 7,989,976 and Rs. 5,578,142 respectively, actions had not been taken to settle these balances. Since the business activities of the Paper Corporation had stopped an uncertainty was observed in respect of settlement of these 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 the Laws, Rules and Regulations	Non- compliance
(a)	Section 41 of Factories Ordinance No, 45 of 1942	A fire alarm system had not been installed.
(b)	Department of Public Enterprises Circular No. PED 1/ 2015 of 25 May 2015 Section 4.2	Without taken action to provide group transportation for the 15 Middle Level Managers of the Corporation in terms of the Circular, allowances amounted to Rs. 3,132,500 had been paid in the year under review at a monthly sum of Rs. 17,500 per officer.

(c)	Public Enterprises Circular No. PED 03/ 2017 of 11 December 2017 Sections 01, 02 and 03	Although the approval of the Treasury should be obtained for the payment of the bonus in terms of the Circular, without having a such approval a sum of Rs. 50,190,854 had been paid based only on the recommendation of the Chairman of the Corporation for the year under review.
(d)	Extraordinary Gazette Notification No. 2004 /66 of 03 February 2017	The Corporation had not maintained the Register of Registration for Information Requests and Register of Appeals and the Register of Refused Information in the year under review.
(e)	Public Administration Circular No. 05/ 2008 of 06 February 2008	Even though introduce a Citizens Charter and an Institutional Mechanism should be carried out for that by the State Institution, it had not been so done.

3. Financial Review

3.1 Financial Results

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 deficit of Rs. 229,273,949 and the corresponding deficit of the preceding year was Rs. 74,649,560, thus observing a deterioration of Rs. 154,624,389 in the financial result as compared with the preceding year. Decrease in the gross surplus by Rs. 130,520,719 and increase in the financial expenses by Rs. 37,624,144 had mainly attributed to the deterioration in the above financial result.

An analysis on the financial results of the year under review and the 04 preceding years even though it had resulted in a surplus from the year 2013 up to the year 2015, a deficit had occurred in the years 2016 and 2017 . The deficit of the year 2017 had increased by 207 per cent and had been Rs. 229,273,949 . However, when the employee remuneration, Government taxes, and readjusted the depreciation on non-current assets to the financial result, the contribution of the Corporation for the year 2013 amounting to Rs. 550,885,453 had continuously improved and reached Rs. 579,601,971 by the end of the year 2017.

3.2 Analytical Financial Review

The gross profit margin and the net profit margin of the Corporation was being deteriorated even from the year 2013 . The gross profit and net profit margins of 35 per cent and 3 per cent respectively in the year 2013 had deteriorated to 16 per cent and minus 18 per cent respectively in the year under review.

Similarly, even the current and quick ratios which show the liquidity of the Corporation had deteriorated. The current and quick ratios of 1.4:1 and 1.05:1 respectively in the year 2013 had deteriorated to 0.88:1 and 0.63:1 respectively in the year under review.

4. Operating review

4.1 Performance

4.1.1 Operations and Review

The following matters were revealed at the examination of the performance of achieving the objectives of Corporation in the year under review.

(a) An income totalled to Rs. 893,544,499 had received as Rs, 677,043,029 and a sum of Rs 216,501,470 in the year under review from the Department of Educational Publications and the National Lotteries Board respectively for the printing of school text books and printing of Lotteries . Since that was 71 per cent from the overall income amounted to Rs. 1,249,839,033 in the year, it was observed that the Corporation is depend only on two income sources of its without diversification the income sources.

(b) Selling, distribution, exportation and importation of books, educational publications, newspapers magazines and other publications printed by the Corporation or by the other Institution of Sri Lanka were the activities in the objectives of the Corporation and since the income earned from the year 2012 to the year 2017 by that was at a range from 0.01 per cent to 0.18 per cent from the overall income of the Corporation , it was observed that the Corporation had not drawn adequate attention to achieve those objectives.

(c) Even though it had been planned to conduct 34 exhibitions in 24 schools and 10 Government Institutions to sell publications of the Corporation according to the Sales Plan of the year under review, conducting exhibitions had been abandoned due to high cost conducted only two exhibitions in two Institutions. However, though that decision had been taken due to high cost, a proper calculation of the cost or cost benefit analysis had not been made.

4.2 Management activities

The following observations are made in respect of printing of school text books for the year 2018 .

(a) A 1,520 metric tons of papers totalled to Rs. 179,801,775 imported by a private Institution for the printing of school text books for the year 2018 had been released from the Port in delay. Even though a demurrage charge on it amounted to Rs. 5,037,480 should be paid by the above importer private Company to the Sri Lanka Ports Authority , a sum of Rs. 1,457,013 out of that demurrage charge had been paid by the Corporation to the Sri Lanka Ports Authority .

(b) A sum of Rs. 1,084,990 had been reduced as fines from the amount payable to the Corporation by the Department of Educational Publications for the 18 types of school text books printed by using them since the shine of the imported papers used for the printing of the school text books,

(c) Even though the " Double Side Coated Art Board" in 220 GSM type should be used for that text book as per the agreement entered into with the Department of Educational Publications for the printing of school text books , because of the " Double Side Coated Art Board" in 230 GSM was used instead of that, an extra cost amounted to Rs. 1,056,362 had been incurred to the Corporation. This was due to non- maintenance of the 220 GSM type paper stock related to the production in optimal level.

4.3 Operational activities

Out of the 12 sales stalls of the Corporation 11 stalls had not fulfilled their sales targets ranged between 22 per cent to 68 per cent from the targeted sales in the year under review.

4.4 Under- utilized Assets

Out of the estimated machine working hours in the Litho Section, Letterpress Section and Binding Section in the Corporation a totalled machine working hours 100,974 as 33 per cent, 34 per cent and 85 per cent respectively had not been utilized during the year because of the lack of the printing jobs. As a result of that 238 number of staff also employed in those Divisions had not been assigned for their activities during that period.

4.5 Resources of the Corporation handed over to the other Government Institutions

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From the land belonging to the Corporation situated at Panaluwa , padukka a portion in extent 13 acres 02 roods and 06 perches in estimated value of Rs. 107,000,000 had been alienated to the Industrial Development Board to establish an industrial city. Nevertheless, the Corporation had not taken action to approach into a specific decision in respect of alienating that to the Board legally or get back the land.

4.6 Staff Administration

The following observations are made.

(a) The details regarding the approved cadre of the Corporation had been prepared in the year 2012 and the attention had not been drawn in respect of making revisions in Cadre Assessment considering the machineries purchased by the Corporation at present and the production process of the Corporation.

(b) Out of the 36 training programmes proposed to be implemented according to the Training Plan in the year under review only 05 had been implemented and 11 training progammes had been implemented away from the Training Plan. However, even though 04 training programmes for the staff employed in the printing activities had been conducted, only 17 had been appeared for that out of the 476 number of staff employed in printing activities.

4.7 Market Share

A market survey for the understanding of the market share in respect of the other production of exercise books, publishing of publication books, other commercial printings carrying out by the State Printing Corporation itself functioned in the competitive market had not been conducted in the year under review or in the previous years.

5. Sustainable Development

5.1 Achieving of Sustainable Development Objectives

All the government institutions should be functioned as per the United Nations year 2030 Agenda for the Sustainable Development and as a result of the Corporation had not aware of the way of proceed with regard to the functions under the scope it had not been identified the Sustainable Development Goals in relation to the activities, targets and interlinks which can be approached to the targets and the indicators to measure the achieving targets .

6. Good Governance and Accountability

6.1 Procurement

The following observations are made in respect of the purchasing of the Variable Data Printing Machine produced in Italy by incurring Rs. 203,509,234 in the year under review for the printing of Lotteries .

As the supplier had been selected only based on the prices without making comparison of technical specification of bids furnished relating to the purchase by Technical Evaluation Committee of the Ministry of Media and Parliamentary Affairs, instead of the Six Colour printing machine which had the printing speed of 230 meters per minute expected to be purchased according to the Feasibility and Evaluation Report , the Six Colour Printing Machine which had printing speed of 80 meters per minute and maximum speed in VDP Camera Unit of 50 meters per minute had been purchased.

The General Manager of the corporation had informed to the audit that the printing speed of the Six Colour Printing Machine Unit was 110 meters per minute and the speed of the VDP Camera and Folding Unit was 65 meters.

6.2 Budgetary Control

As it was observed the variances ranging from 20 per cent to 3,333 per cent between the budgeted and actual expenditure compared relating to 20 expenditure items thus indicating that the budget had not been made use of as an effective instrument of management control accordingly.