

Qualified Opinion

The audit of the financial statements of the State Printing Corporation (“Corporation”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of Financial performances, changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial positions of the corporation as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting standards.

1.1 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the audit of the financial statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporations ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation to cease operation, or has no realistic alternative but to do so.

Those charge with governance are responsible for overseeing the Corporation’s financial reporting process.

As per Section 16(1) of the National Audit act No 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

1.3 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 State Printing Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State Printing Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the State Printing Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the State Printing

Corporation, and whether such systems, procedures, books, records and other documents are in effective operation

- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the State Printing Corporation.
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with applicable standards	Management comment	Recommendation
(i) Sri Lanka Accounting Standards-01	<p>In terms of paragraph 79 (b) of the standard, it is necessary to disclose the nature of the reserves, the purpose of maintaining it, etc. But the corporation had not disclosed such information with regard to Capital Reserves of Rs. 102,491, General Reserves of Rs. 1,000,000, Development Reserves of Rs. 13,901,142 and Revaluation Reserves of Rs. 808,011,707.</p>	<p>The reserve was established at the inception of the corporation and has been adequately recorded in the final accounts.</p> <p>Disclosures should be made regarding the nature of the reserves, the purpose of it etc.</p>
(ii) Sri Lanka Accounting Standards -07	<ul style="list-style-type: none"> • Although Cash and cash equivalents for the year under review totaled Rs. 15,643,749, when preparing cash flow statement cash and cash equivalent balance of Rs. 15,801,749 was used. Thus there was a difference of Rs.158, 000. 	<p>The reason for this was the Rs 158,000 expended by the corporation on employee training and later recovered from them.</p> <p>The cash flow statement should be prepared as outlined in the standard.</p>

- Although the increase in current liabilities in the year under review was Rs. 8,078,063, in the statement of cash flow it was identified Rs. 40,133 less than the corresponding increase. No response had been given.

The cash flow statement should be prepared as outlined in the standard.

(iii) Sri Lanka Accounting Standards- 23

The interest paid on the loan for the lottery printing machine purchased in the year under review had to be identified and capitalized in accordance with paragraph 09 of the Standard.

Interest expense up to the first quarter of 2018 has been capitalized.

According to documents prepared by the corporation and rendered to audit, it does not contain interest expenses. Therefore, necessary accounting entries should be made in accordance with the standard

1.5.2 Accounting Deficiencies

Audit Issue -----	Management comment -----	Recommendation -----
(A) The cash and bank balance totalling Rs.32,987,997 as at 31 December of the year under review had been set off by a overdraft balance of Rs.5,434,426 of another account and the net balance of Rs.27,553,571 had been shown at due to the inclusion of in the statement of Financial Position under cash and cash equivalent, bank overdraft and cash and cash equivalent had been under stated by Rs.5,434,426.	No response had been given	This accounting error should be rectified when preparing the financial statements for the next year.
(B) Closing raw material stock of the previous year of Rs 91,924,671 has been erroneously stated as Rs.93,911,088. Thus the net loss has been over stated by Rs 1,986,417.	No response had been given	This accounting error should be rectified when preparing the financial statements for the next year.

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| (C) Closing spare parts stock of the previous year of Rs 34,351,421 has been erroneously carried forward as Rs 32,856,421. Thus the net loss has been overstated by Rs 1,495,000. | No response had been given | This accounting error should be rectified when preparing the financial statements for the next year. |
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1.5.3 Receivables

Audit Issue -----	Management comment -----	Recommendation -----
(A) The corporation could not recover trade debtor balance totaling Rs 110,854,132 outstanding for 6 or more years. It was 34 percent of the total out standing trade debtor balance of Rs 326,777,812.	The Legal Division, Finance Division and Marketing Division work together to recover the out standing debtor balance.	Arrangements should be made to recover outstanding debt balances promptly.
(B) A balance Rs 9,753,427 to be received from National Paper Company and a balance of Rs 7,460,675 payable to the same company remain unsettled at the end of the year under review. This balance included total outstanding receivable and payable balances exceeding 5 years of Rs 7,989,976 and Rs 5,578,142 respectively. No action had been taken to settle these balances. Since the National Paper Company ceased these operations, its settlement had become doubtful.	A reminder will be sent to the competent authority to collect the money due to the corporation.	These balances must be settled promptly.
(C) Although the corporation has shown a sum of Rs 11,836,110 to be received from the Department of Census and Statistics in the financial statement, it has not been confirmed or rejected. There fore there is an uncertainly as to its accuracy.	It will be corrected in future.	Balances shown in the accounts and balances contained in the confirmation letters should be examined and necessary changes should be made in the accounts if necessary.

1.6 Non-compliance with Laws, Rules, Regulations and Management decisions.

Referring to Laws, Rules and Regulations	Non-compliance	Management Comment	Recommendation
(A) Section 4.2 of the Public Enterprises Department circular No. PED 1/2015 dated 25, May 2015	Without providing group transport services according to circular instructions, each officer was paid a monthly transport allowance of Rs. 17,500 as and the Corporation had incurred Rs 3,132,000 during the year under review.	If the liquidity situation of the corporation improves, adequate number of vehicles will be utilised to provide transport facilities in accordance with the circular.	The corporation should act in accordance with the relevant circular.
(B) Section 41 of the Factories Ordinance No 45 of 1942	A fire alarm system had not been installed	Action will be taken to install a fire alarm system.	Must comply with applicable law

2 Financial Review

2.1 Financial results

The operating result of the year under review amounted to a deficit of Rs 406,985,154 and the corresponding deficit in the preceding year amounted to Rs 243,094,833. Therefore a deterioration amounting to Rs. 163,890,321 of the financial result was observed. Reduction of school text book printing income by Rs 388,013,361 was the main reason for the deterioration of financial result.

2.2 Ratio Analysis

The current ratio of 1: 0.87 in the previous year had declined to 1: 0.75 in the year under review and the quick ratio had declined from 1: 0.62 to 1: 0.34. Further, the Gross Profit Margin ratio of 14.5 percent and Net Profit Margin of 19.5 percent for the year under review had declined to (0.30) percent and (45) percent respectively.

3. Operational Review

3.1 Management inefficiencies

Audit Issue	Management Comment	Recommendation
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(A) A sum of Rs 10,181,000 as a penalty for late delivery of lotteries was charged by the National Lotteries Board from the due amounts as per the agreement entered into between the corporation and the National Lotteries Board.	The lotteries could not be delivered on time due to raw materials not procuring on timely basis.	Arrangements should be made to procure raw materials on time
(B) In terms of the agreement entered into between the corporation and the Department of Educational Publication for the printing of school text books for 2019, the Department of Educational Publications has levied a penalty of Rs 38,262,345 from the amount payable to the corporation.	For more than 04 months the corporation did not have a chairman and a board of directors due to the political uncertainty. It had affected the formation of procurement committees which inturn delayed the procurement of paper to school text book	School textbook printing is a major source of revenue for the corporation. Therefore, the required raw materials should be stored and steps should be taken to print and deliver the books on agreed periods.
(C) On 20 November 2017, the General Manager informed the supplier that the Corporation was fully satisfied with the functioning of the machine purchased for lottery printing in 2017. However, between February 2018 and 30 November 2018 flexo and variable parts of this machine had broken down 336 and 166 hours respectively.	No answer had been given	Decision should be taken to identify whether this happened due to the carelessness of TEC or machine operators. The responsibility should be fixed to the relevant party.

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| <p>(D) The 1,125,000 tickets in the Mahajana Sampatha Lottery No. 3665, which was to be drawn in 2018, had to be removed because the year was marked as “2008” instead of “2018”. Sum of Rs. 354,477 incurred to print the lottery No 3665 had become a wasted expenses.</p> | <p>No answer had been given</p> | <p>Recover the loss from those responsible. Make necessary arrangements so as not to cause such errors in future.</p> |
| <p>(E) 13 acres, 01 rood and 06 perch land at Panaluwa, Padukka belong to the corporation had been valued for Rs 107,000,000. This particular block of land had been given to the Industrial Development Board in the year 2000 to set up an industrial zone. No action has been taken by the corporation to transfer the land and obtain the compensation.</p> | <p>The corporation has presented a cabinet memorandum to sell the land for the government valuation of Rs 107 million. Action will be taken accordingly.</p> | <p>The committee on public enterprise at its meeting on 09 August 2019 directed the State Printing Corporation to accept Rs 25 million and complete the land transfer.</p> |

3.2 Procurement Management

Audit Issue -----	Management Comment -----	Recommendation -----
<p>(A) The corporation has not taken action to obtain the password of the lottery printing machine which was purchased for Rs 203,509,234. Therefore the corporation has to depend on the Indian manufacture to insert software. Further although the warranty of the machine expired on 20 November of the year under review, no action had been taken to enter into a maintenance agreement with the local agent.</p>	<p>We are currently in the process of coordinating this with the Ministry and will be taking action accordingly.</p>	<p>The corporation must act promptly to obtain relevant passwords. It must also enters into an annual maintenance agreement with the local agent.</p>

- (B) Although the annual Flexo Tape Roll requirement for the operation of the lottery printing machine is 5 rolls, 66 tape rolls were purchased for Rs 3,115,200. As at December 31, of the year under review 61 tape rolls worth Rs. 2,879,200 were left in the store and had expired.
- The corporation had no practical knowledge of the usage of this item. This stock would be used in future.
- The remaining 61 tape rolls have already become expired hence could not be used. The annual requirement should be taken into account when ordering same.

3.3 Human Resource Management

Audit Issue	management Comment	Recommendation
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(A) The approved cadre of the corporation was prepared in 2012. Considering the modern machinery purchased by the corporation recently, action has not been taken to carry out a fresh cadre assessment.	Considering the equipment purchased by the corporation and the production process of it, the revision of the staff requirements is nearing completion and the work will be completed within the next month. A report will be submitted to the Board for approval.	The printing industry is rapidly changing with technology. Relatively small numbers of employees are required to operate new printing machines. Since the corporation plans to buy new printing machines this year as well, decision will have to be taken on the staff requirement.
(B) According to the Statement of recruitment, when recruiting personal internally, applications should be called, upon a board decision, and selection should be based on results of a competitive examination/ structured interview. However violating that laid down procedure, the accountant post was filled by appointing an assistant accountant in 2012.	This matter will be informed to the board of directed in the next board.	Corporation should act in accordance with the recruitment procedure.

(C) The post of Human Resources Manager had been vacant from 01 November 2018 to 21 June 2019 due to the Human Resource Manager leaving the service. An Assistant Secretary of the Ministry of Education was appointed to cover the duties of the Human Resources manager.

No answer had been given

Since the corporation has approximately 700 staff, a Human Resources Manager should be appointed on a full time basis.