

## **Paranthan Chemicals Company - 2019**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Paranthan Chemicals Company (“Company”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the comprehensive income statement, statement of changes in equity and the 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 the provisions in National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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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 determines 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 Company’s 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 intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Company 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 Company.

#### 1.4 Scope of Audit (Auditor's Responsibility for the Audit of the Financial Statements)

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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 audit 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 scepticism 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 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 Company'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 Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit 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 audit report. However, future events or conditions may cause the Company 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 Company and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company ;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

**1.5 Financial Statements**  
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**1.5.1 Internal Control over the Preparation of Financial Statements**  
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Execute with general and specific authority of transaction management, record transactions as required to prepare financial statements in accordance with applicable reporting standards and maintain accounting for assets, access to assets only with general and specific authority of management, for recorded assets The firm needs to maintain an adequately "well-planned" internal accounting control system to ensure that accounting is comparable to existing assets at reasonable times and appropriate action is taken on any discrepancies. Audit observations related to the maintenance of major accounting records such as General Ledger, Journal, Journal Vouchers, Payment Vouchers are included under the following headings;

**Audit Observation**  
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**Comments of the Management**  
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**Recommendation**  
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Although the liquid chlorine refill was done by a separate unit, the production cost was not identified when calculating the sales cost. Accordingly, only the cost of purchasing liquid chlorine was included in the calculation of the cost of sales and Overhead expenses and administrative expenses had not been accounted.

That will be corrected in 2020

Production costs should be calculated for the production of the company.

### 1.5.2 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
(A) In terms of section 34 of Sri Lanka Accounting Standard No. 16, a revaluation had not been carried out for fully depreciated motor vehicles valued at Rs.28,330,715.	That a revaluation will be conducted and reported in the future	A revaluation should be carried out speedily and necessary adjustments in accounts should be made accordingly.
(B) Although different depreciation rates have been adopted for the same asset, it has not been disclosed in the financial statements as per Section 73 of the Sri Lanka Accounting Standards No. 16.	That will be corrected in 2020	Change of depreciation rates for equivalent assets Should be disclosed in the accounts.

### 1.5.3 Accounting Deficiencies

Accounting Deficiency	Comment of the Management	Recommendation
(a) The total sales volume of Rs. 883,000 was accounted as revenue without identifying the production cost for the production of caustic soda liquid.	That action will be taken to identify production costs by 2020	Accounts should be prepared as the profit and loss can be clearly identified for each product.
(b) Without recognizing the production cost for bleaching liquid production total sales amounting to Rs. 361,469 were taken into account as revenue.	That action will be taken to identify production costs by 2020	Accounts should be prepared as the profit and loss can be clearly identified for each product.

### 1.6 Cash Receivable

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken to write off the loan balances of Rs.1,387,445 receivable from the Water Supply Board from the books	That letters have already been sent for settlement	Necessary approvals should be obtained for long-term non-performing loan balances

with the necessary approval since the year 2000.

and adjustments should be made in the accounts.

- (b) The balances of s. 4,580,264 receivable from 5 closed institutions had not been taken action to write off from the books after obtaining the necessary approval and had been made provision as bad debts since the year 2015.
- That these institutions are closed and that this balance is bad debts
- Adjustments should be made in the accounts after obtaining necessary approval.

**1.7 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.**

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<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)Public Enterprises Circular No. 2018/03 dated 07 December 2018 Section 2.3	The bonuses for the year 2019 had been paid in December 2019, before the preparation of the financial statements for the year 2019.	That the 2019 bonus was paid based on the 2018 profit	Profit Bonuses must be paid after the submission of the annual financial statements.
(b)Circular No. 326 of the Ministry of Industry and Science 06/06/General/02/02 dated 23/11/1983	If the full 21 days of medical leave received annually had not been taken, the payment would have been limited to one month's salary, but in addition to the 21 days of medical leave for the officers, 07 days of rest leave and 14 days of earned leave had been paid for 42 days. The amount paid without approval for 21 days for the year 2019 is Rs. 2,660,629.	That a request has been made to the Department of Public Enterprises	This amount should be recovered from the relevant responsible officers in respect of payments made contrary to the Circular (without approval).

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| (c) Public enterprises Circular No. PED 12 dated June 3, 2003 Section 6.5.3  | The annual reports for the years 2015,2016 and 2017 had not been tabled in the Parliament   | A Board of Directors has been appointed on 16 January 2020 and it is planned to hold Annual General Meetings for the years 2015,2016,2017,2018. | Annual reports for each year should be tabled in the Parliament. |
| (d) PED 01/2015 dated 25 May 2015 Section 01 of the Public Enterprise Circular and Management Services Circular No. 03/2018 dated 18 July 2018 | A transport allowance of Rs. 15,000 each for 4 officers had been granted only with the approval of the Board of Directors and had not been obtained approval from the Treasury. | A transport allowance had been paid with director board approval for Persons who are not provided group transport facilities                    | Treasury approval should be obtained for this payment.           |

## 2. Financial Review

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### 2.1 Financial Results

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The operations for the year under review resulted in a surplus of Rs. 73,380,727 as compared with the corresponding surplus of Rs.74,263,916 for the preceding year, thus observing a decline of Rs.883,189 in the financial result. The decrease in sales income from caustic soda flakes and hydrochloric acid had mainly attributed therefore.

## 3. Operating Review

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### 3.1 Delays in Projects or Capital Works

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#### Audit Observation

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In 2016, it was proposed to set up a small plant for chlorine production on the land located in Paranthan, which was also mentioned as an objective of the 2019 action plan. The cost of planting and maintaining commercially valuable plants in the area in 2016, 2017, 2018 and 2019 was Rs. 2,552,730, Rs. 433,435, Rs. 631,680 and Rs. 530,810 respectively but the plant had not been started.

#### Comments of the Management

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That the call for tenders has been stopped due to problems in obtaining the title deed for the land in Paranthan and action is being taken to obtain the document

#### Recommendation

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Necessary action should be taken immediately to start chlorine production at the Paranthan plant.

### 3.2 Procurement Management

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#### Audit Observation

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#### Comments of the Management

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#### Recommendation

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| (a) According to Section 4.2 of the Procurement Guidelines, the company is required to prepare a master procurement plan for at least 3 years, including the expected procurement, and to update it within a period not exceeding 6 months, but a plan had been prepared only for years under review without considering the above. | A procurement plan for 2020, 2021 and 2022 is being prepared   | Actions have been taken in accordance with the provisions of the Procurement Guideline |
| (b) Capital purchases of Rs. 1,342,165 had not complied with Procurement Guidelines 6.3.1 (b), 6.3.3 (a), 6.3.6 and, for Rs. 599,000 for the Air Compressor purchase and Rs. 443,400 for CCTV camera system purchase performance bonds had not been obtained according to the section 5.4.8 of the Procurement Guideline.           | Instructions have been given to obtain performance bond guarantees on all local and foreign purchases. | Procurement guidelines should be followed  |

### 3.3 Human Resource Management

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#### Audit Observation

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#### Comments of the Management

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#### Recommendation

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| Officers have not yet been recruited for the post of Assistant General Manager (Finance) and Internal Auditor included in the recruitment scheme approved on 25 November 2014. | That the applications have been called for the post of Assistant General Manager (Finance) on 4 May 2019. | Vacancies should be filled up expeditiously. |
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**4. Accountability and Good Governance**  
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**4.1 Internal Audit**  
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<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
a) The internal audit program had not been prepared and submitted to the Auditor General with the consent of the Auditor General.	No answers	Arrangements should be made to prepare an internal audit program and submit it to the Auditor General
b) The Accounting Officer should ensure that an effective internal control system is set up and maintained in terms of Section 38 (f) of the National Audit Act No. 19 of 2018 and that the effectiveness of the system should be reviewed from time to time and necessary changes should be made to ensure that the system operates effectively. Although reviews should be made in writing and a copy should be submitted to the Auditor General, no such review has been made and submitted to the Auditor General.	No answers	Action should be done in accordance with the provisions of the National Audit Act.

**4.2 Budget Control**  
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<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) Variations between the budget expenditure and the actual expenditure were differences from 57 percent to 250 percent, in 15 subjects	No answers	Actions should be taken to maintain the expenditure within budgeted expenditure
(b) The difference between the budgeted expenditure and the actual expenditure on capital expenditure was 79 percent.	No answers	Actions should be taken to maintain expenditure within budgeted expenditure