

## **State Printing Corporation - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the of State Printing Corporation for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of 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 tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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

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My opinion is qualified based 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.

#### **1.3 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 Public Sector 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Sub-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.

#### **1.4 Auditor's Responsibilities 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 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 internal control.
- Evaluate the 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.
- 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 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 Institute 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 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 Council;
- 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 Audit Observations on the preparation of Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements**

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The Corporation is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under the following heading.

## 1.5.2 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
(i). In terms of Paragraph 69 of Sri Lanka Accounting Standard 01, out of the long-term loan balance of the Corporation amounting to Rs. 55,497,200 as at 31 December of the year under review, the amount to be paid within a period of not more than 12 months and the amount to be paid within a period of more than 12 months from the closure of the reporting period should be disclosed. Nevertheless, action had not been taken accordingly.	The fault is accepted. Action will be taken to correctly separate and state it in the preparation of financial statements for the ensuing year.	Accounting process should be carried out in accordance with the relevant accounting standard.
(ii). In terms of Paragraph 49 of Sri Lanka Accounting Standard 08, the nature of the prior period error and the details of the amount of the correction for each financial statement line item affected should be disclosed in the financial statements. Nevertheless, action had not been taken accordingly. Due to the prior year adjustments, the surplus of Rs. 22,914,300 in the previous year's accounts had become a deficit of Rs. 43,734,288 and it had not been disclosed in the financial statements.	Not replied.	-Do-
(iii). In terms of Paragraph 16(b) of Sri Lanka Accounting Standard 16, any costs directly attributable to bring the asset to the location and condition necessary for it to be capable of operating should be identified as relevant cost of an item of property, plant and equipment. Nevertheless, due to failure to account for the total value of Rs. 1,365,765 including the retention money of Rs. 703,095 incurred for the construction of the factory where the machine is installed, value of the performance security amounting to Rs. 650,000 and the Value Added Tax of Rs. 12,670, the property, plant and equipment had been understated by that amount. Accordingly, depreciation expenditure for the year under review had been understated by Rs. 65,434.	Once the final payment is made considering the progress of the relevant task, action will be taken to make corrections in the accounts for the year 2022.	-Do-

- (iv). In terms of Paragraph 51 of Sri Lanka Accounting Standard 16, the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes shall be accounted for as a change in an accounting estimate in accordance with Sri Lanka Accounting Standard 08. Nevertheless, useful life of 317 items of property, plant and equipment totalling Rs. 63,871,121 and further in use had not been so reviewed.
- Given the current financial crisis of the Corporation, relevant revaluation will be done in the year 2023.
- Do-

### 1.5.3 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
<p>(i). Seven printing orders totalled Rs. 1,763,758 with the Value Added Tax, of which the printing work had not been completed as at the balance sheet date of the year under review, had been stated as the sales and printing materials worth Rs. 9,447,404 provided for various institutions under 04 invoices during the year under review had not been brought to account as a printing income.</p>	<p>The demander do not make any payment until the receipt of entire quantity if goods relating to the orders. Therefore, despite being handed over a part of the order to the relevant institution, it has not been possible to consider as an income. However, immediately after the dispatch of total stock of goods, action will be taken to invoice it and account for the relevant income. This value has been brought to account as an income in the year 2022.</p>	<p>Only the transactions pertaining to the year should be shown in the accounts.</p>
<p>(ii). Twenty six printing orders that had been completed and handed over to the National Lottery Board were not accounted for as income and as such, the lottery printing income, tax liability on Value Added Tax and expenditure on late fees during the year under review had been understated by Rs. 13,259,240, Rs. 1,060,739 and Rs. 570,440 respectively.</p>	<p>Accepted. Action will be taken to prevent from occurring this situation in the future.</p>	<p>-Do-</p>

- (iii). The revaluation surplus of Rs. 106,864,633 related to the land vested in the Industrial Development Board during the year under review had not been eliminated from that account and adjusted.
- The elimination of revaluation profit from the reserve could not be done due to a mistake. Action will be taken to correct it in the ensuing year.
- Action should be taken to correctly adjust the transactions in the accounts.
- (iv). A number of 52,500 school text books worth Rs. 2,796,150 that had been handed over to the Education Publication Department on completion of their printing had not been stated as the closing stock of the year under review.
- The value of the finished goods stock or the profit has not increased.
- Only the transactions pertaining to the year should be included in the accounts.

#### 1.5.4 Non-reconciled Control Accounts or Reports

Item	Value as per Financial Statements	Value as per Corresponding Reports	Difference	Comment of the Management	Recommendation
	(Rs.)	(Rs.)	(Rs.)		
Receivable Balances	10,087,595	1,512,445	8,575,150	Not commented	Corrective measures should be taken on those creditors' and debtors' balances by holding discussions with the relevant institutions.
Payable Balances	44,865,636	70,033,215	25,167,579		

#### 1.5.5 Explanation of a Certain Matter

Audit Observation	Comment of the Management	Recommendation
Attention is brought on Section 2.3 of the financial statements. As mentioned thereunder, the financial statements had been prepared on going-concern basis. Nevertheless, the total liabilities of the institution had exceeded total assets by Rs. 108,657,608 whilst observing that the current assets had also been exceeded by current liabilities. However, it is observed in terms of Section 18(3)	Not commented.	Action should be taken to ensure a favorable financial position of the Corporation.

of the State Printing Corporation Act, No. 24 of 1968 that there were provisions for the Ministry of Finance to allocate financial provision for going concern of the institution. As such, my opinion is not qualified owing to this reason.

## **1.6 Accounts Receivable and Payable**

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### **1.6.1 Funds Receivable**

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Audit Observation -----	Comment of the Management -----	Recommendation -----
(i.) A methodology had not been put in place to recover the loan balance of Rs. 63,277,693 continued to exist over 05 years within the debtor balance of the Corporation amounting to Rs. 752,068,839 as at 31 December of the year under review, with respect to Ministry of Education, Educational Publications Department, National Lotteries Board, and National Paper Company Limited – the institutions which often performed transactions.	Not commented.	Action should be taken for the prompt recovery of those outstanding loan balances.
(ii.) Action had not been taken to recover the debtor balance of Rs. 37,529,625 relating to 04 sales outlets that had remained closed by the end of the year under review.	Not commented.	- Do.

## **2. Financial Review**

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### **2.1 Financial Results**

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The operating result of the year under review was a deficit of Rs. 281,957,906 as compared to the corresponding deficit of Rs. 43,734,288 for the preceding year, thus observing a deterioration of Rs. 325,692,194 in the financial result. This deterioration had mainly been attributed by the decrease in printing revenue of the Corporation by Rs. 188 million and the loss of Rs. 74 million sustained in transferring lands.

### **2.3 Ratio Analysis**

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The current ratio and quick ratio being 0.65:1 and 0.44:1 respectively in the year 2020 had deteriorated to 0.59:1 and 0.4:1 by the year under review. Furthermore, the gross profit ratio and net profit ratio being 18 per cent and 2.3 per cent respectively in the year 2020 had deteriorated to 10 per cent and 17 per cent by the year under review.

### 3. Operating Review

#### 3.1 Uneconomic Transactions

Audit Observation	Comment of the Management	Recommendation
Without being approved by the Board of Directors, the sum to be received by the Corporation from each lottery ticket printed had been decreased from 49 Cents to 44 Cents by the Chairman of the Corporation. As such, the Corporation had lost a revenue of Rs. 10,519,265 in the year under review.	Not commented.	Such decisions should not be taken without being approved by the Board of Directors.

#### 3.2 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
Despite the possibility of importing papers at the value of Rs. 448,299,364 through letters of credit, papers valued at Rs. 510,249,355 had been purchased from local suppliers. As such, the Corporation had sustained a loss of Rs. 61,949,991.	Not commented.	An inquiry should be conducted in this connection and the officers responsible should be identified, thus taking necessary action.

#### 3.3 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
Due to delay in handing over 14,641,000 copies out of 95 categories of books to the Educational Publications Department after being printed for the school academic year of 2022, penalties for delay totalling Rs. 969,897 and a sum of Rs. 289,197 on missing pages had been deducted from the invoice.	Not commented.	The same issue had arisen in the previous years as well. As such, action should be taken to avoid delays in printing text books.