

State Printing Corporation - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the of State Printing Corporation for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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

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.

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

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

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Relevant Standard	Reference to the Comment of Management	Recommendation
(i). In terms of Paragraph 51 of Sri Lanka Accounting Standard 16, Fully depreciated but still used collection Rs. 64,281,974, the useful life of 352 items of property-Plant and equipment had not been revalued and taken to books.	As a result of financial crisis in the corporation, it had been very critical matter to allocate a provision to get valuation from Sri Lanka Valuation Department. However, The Financial statement of corporation will be processed from this this year onward.	Action should be taken to the as per the Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(i). Due to the fact that a sales advance of Rs.27,951,780 given to the Corporation by the Department of Education Publications in the year under review was recorded as a receivable. Therefore the current assets and current liabilities of the corporation were understated by that amount.	2023 accounts have already been corrected. An arrangements have been made to account for such proceeds as sales advances in the future.	Action should be taken to the double entry of a transaction should be correctly identified and recorded.

- (ii). Due to the chairman's agreement to reduce the 49 cents agreed to print a lottery ticket with the National Lottery Board in 2021 to 44 cents without any approval of the board of directors, The loss of Rs. 10,519,265 incurred by the corporation was adjusted as a doubtful debt allocation. In the year under review, That mentioned above loss was deducted from the debtors and deducted from the retained earnings as an adjustment of the previous year. Accordingly, the retained loss had further increased by that amount in the year under review, while the doubtful debt expense had been understated by that amount in the year under review.
- I will correct it in the final accounts of the year 2023.
- Action Should be done under proper authority and at the process of accounting, the correct identification of the notes should be made and the accounts should be placed.
- (iii). The interest calculated for the fixed deposit in the year under review was understated by Rs.491,369.
- Expected bank interest in respect of 06 months had been accounted for during the year under review, But it should be 07 months and the interest per month has been accounted less.
- The relevant period should be properly identified and the accounts should be prepared.
- (iv). Due to the calculation of cost of sales based on an operating expense that is not relevant to cost of sales calculations, and cost of sales had been overstated by Rs.20,468,587 and a gross loss had been shown in the income statement.
- Although this is added to the cost of sales due to a mistake and it should have been recorded as an operating cost.
- Items should be included under proper classifications in the financial statements.

1.5.3 Non-reconciled Control Accounts or Reports

Item	Value as per Financial Statements (Rs.)	Value as per Corresponding Reports (Rs.)	Difference (Rs.)	Comment of the Management	Recommendation
Receivable Balances	3,210,565	-	3,210,565	I will confirm the accuracy and report back.	Connect with relevant institutions and Arrangements

should be made to settle the balance promptly.

Payable Balances	166,509,372	172,728,682	6,219,310	I will confirm the accuracy and report back.	Connect with relevant institutions and Arrangements should be made to settle the balance promptly.
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1.5.4 Unauthorized Transactions

Description of unauthorized transaction	Comments of Management	Recommendation
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<p>The approved bank overdraft limit given by the People's Bank was Rs.40,000,000 and according to the financial statements as of December 31, 2022, the bank overdraft was Rs.41,090,093 and therefore the approved limit was exceeded by Rs.1,090,093.</p>	<p>Even if this is temporarily overdrawn, the bank will recover it as soon as the money is deposited. It will exceed the limit only for the bank's interest charging transaction.</p>	<p>Transactions should be done within the approved overdraft limit.</p>
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1.5.5 Explanation of a Certain Matter

Audit Observation	Comment of Management	Recommendation
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<p>Attention is focus to Note No. 2.3 on the Financial Statements. At the end of the year under review, the net assets show a negative value of Rs.446,712,212. As on January 01, 2022, the retained earnings minus the balance of Rs.931,669,314, the loss of the year under review is Rs.380,702,801 and after making prior year adjustments made during the year, By the end of the year under review, it had deteriorated to a negative value of Rs.1,163,063,864 by the end of the year under review. Furthermore, the negative capital status of Rs.715,004,435 in the</p>	<p>Not commented.</p>	<p>Action should be taken to ensure the financial condition of the corporation.</p>
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year 2021 had further deteriorated to Rs.1,087,098,816 in the year under review.

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

Audit Observation	Comment of the Management	Recommendation
At the beginning of the reviewed year of the corporation, the debtor balance related to 2019 and previous years was Rs.176,740,812. The corporation settled only Rs.1,252,517 of this loan in the year under review, which was 0.7 percent of the loan balances of 2019 and earlier years.	Settlement of these debtor balances is very difficult due to the difficulty in finding the necessary information to settle these balances. Thus by selecting debtor balances that are difficult to collect Necessary steps will be taken to write off the accounts as per the instructions of the circular Pe/01/2021(i) of the Department of Public Enterprises.	Urgent action should be taken to clear the outstanding balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Chapter 3.3 of the Guidelines issued by the Department of Public Enterprises on Dated 16 November 2021	In accordance with the requirements of the Corporate Plan, A human resource plan was not prepared by the corporation.	Not Commented.	Action should be taken to the as per the Guidelines issued by the Department of Public Enterprises on Dated 16 November 2021.

1.8 Money management

Audit Observation	Comments of the council	Recommendation
Although the corporation had arranged to renew the fixed deposit of Rs.25,000,000 deposited in the Nugegoda branch of the People's Bank 27 days before maturity at a higher interest rate, but an interest income of Rs.	Fixed deposit as collateral A short-term loan was to be obtained, so it was necessary to extend it again. Therefore this losses had been occur.	Action should be taken to In making the investment decision of the corporation, the investment should be evaluated and decided prudently.

177,183 had been lost for those 27 days.

1.9 Non-compliance with tax regulations

Audit Observation	Comments of the council	Recommendation
<p>(i) From the year 2020, the tax balance to be paid to the Inland Revenue Department is Rs.109,467,898 without any change in the balance. But It had not been settled by the year under review.</p>	<p>A discussion was held in December 2022 regarding the amount of tax to be paid to the Inland Revenue Department and accordingly a plan was presented to pay the VAT. Accordingly, payments are being made in instalments based on the existing financial situation.</p> <p>Also, discussions are underway with the Inland Revenue Department regarding the reduction of the outstanding ESC, NBT, etc. tax balances in previous years.</p> <p>They have agreed to written off a part of it. Please be informed that as soon as the said reports are received, the said balances will be removed from the corporation's accounts.</p>	<p>Action should be taken to settle these tax balances promptly.</p>
<p>(ii) The tax liability on value added tax (VAT) in the reviewed year is Rs.26,641,688 and the corporation had not taken steps to settle these value.</p>	<p>The money is to be received from the Department of Education Publications in the near future, After receiving the money, we will proceed to pay all the amount of VAT.</p> <p>There is a financial problem due to having to pay the arrears due to the profit earned at present. Further an actions are planned to settle</p>	<p>Action should be taken to settle these tax balances promptly.</p>

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs.380,702,801 as compared to the corresponding deficit of Rs.281,957,906 for the preceding year, thus observing a deterioration of Rs.98,744,895 in the financial result. This deterioration had mainly been

attributed by the decrease in printing revenue of the Corporation by Rs.808,511,204 and the increase in financial expenses by Rs.80,206,506.

2.2 Trend analysis of major revenue and expenditure Heads

The main source of income of the corporation, the textbook printing income of the Education Publication Department was Rs.41,569,625 in the year under review and the corresponding previous year the textbook printing income of the Education Publication Department was Rs.1,186,918,385. Accordingly, the main income earning has retreated by Rs.1,145,348,760, which is a percentage retreat of 96 percent.

2.3 Ratio Analysis

The current ratio and quick ratio being 0.6:1 and 0.4:1 respectively in the year 2021 had deteriorated to 0.28:1 and 0.16:1 by the year under review. Furthermore, the gross profit ratio and net profit ratio being 9.78 per cent and (12.7) per cent respectively in the year 2021 had deteriorated to (4.73) per cent and (46) per cent by the year under review.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comment of the Management	Recommendation
Without Board approval, Due to the reduction of the amount due to the corporation from 49 cents to 44 cents per lottery ticket printed by the chairman of the corporation by a only letter, In the year 2021 and the year under review, the corporation had lost a total income of Rs.19,128,588 as sum of both Rs.11,899,603 and Rs.7,228,985 respectively.	In the years 2020 and 2021, the Chairman of the Corporation has made relevant reductions without the approval of the Board of Directors. But later on, to recover the lost income, it was informed in writing, but it was not paid.	Action should be taken immediately to recover this money by following proper legal measures. The necessary internal control structure should be strengthened to prevent such incidents from happening in the future.

3.2 Identified Losses

Audit Observation	Comments of the Management	Recommendation
While five outlets owned by the Corporation were closed down prior to the year under review, Debtor balances worth Rs.37,199,768 transacted from those outlets were shown at the beginning of the year under review.	Out of these loan balances, an amount of Rs.32,961,638 is for outstanding loans related to the Sangharaja Mawatha outlet, part of which has been investigated by the audit department and complaints of nearly Rs.2 million related to fraud have been made.	To carry out an investigation regarding the officers who initiated these outstanding transactions and the officers who have been entrusted with the responsibility for recovery and to collect the relevant money from the officers who have neglected

Out of this, an amount of Rs.670,173 has been settled in the year under review. And it is 1.8 percent of the total loan amount to be charged. The rest will be written off or recovered based on the status of the information. their responsibility. Action should also be made to promptly collect money from the debtors who can be collected.

3.3 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>As a primary source of income for the corporation, the income from the printing of lottery tickets of the National Lottery Board can be identified. And its contribution in the year under review was Rs.405,863,648. But in the year under review, the National Lottery Board had collected Rs.20,072,300 as fines and late fees. The penalty and late fees amount to five percent of the total lottery revenue. Also, it was observed that one of the two lottery tickets of the National Lottery Board printed by the corporation in the year under review was removed from the corporation and given to another institution.</p>	<p>Due to the bad economic situation in the country, the supply of raw materials was problematic and this delay was caused due to which the late charges have increased. Measures are currently being taken to prevent that situation. As per the decision of the Board of Directors of the National Lottery Board, the Mega Power Lottery given to the Corporation has been withdrawn from January 2023 to another printer as per their decisions. As it was not acquired through tender process, the corporation had to agree as per their decision. However, we negotiated with the National Lottery Board to stop its removal, but they unsuccessful.</p>	<p>Necessary measures should be taken promptly to avoid fines and delays, Does not rely on multiple sources of income Sources of income should be diversified.</p>

3.4 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>(i) As on December 31 of the year under review, 25 officers of the Printing Corporation have been appointed to work inspection positions in various years from the year 2000 to the</p>	<p>Not Commented.</p>	<p>As per 13.3 of Chapter 11 of the Code of Institution, An acting working appointment should only be made as a temporary remedy pending a regular appointment. Accordingly, if the post requires</p>

year 2022.
Furthermore, among those officers, 23 officers will work as acting officers from the year 2021 to 2022 in addition to their regular post duties and will receive Rs.1,545,611 had been received.

the services of a full-time officer, regular appointment should be made without delay.

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| (ii) | Although there is approval for 138 unskilled workers belonging to the category of primary employees of the corporation, It was observed that 202 non-approved printing assistants and junior production workers were recruited as permanent employees resulting in a total surplus of 64 employees.
And Rs.94,158,837 were paid as wages for these redundant employees in the years 2021 and 2022. | Not Commented. | A human resource plan should be prepared and accordingly the required number of employees should be approved and acted upon |
| (iii) | There are five main posts in the corporation namely General Manager, Deputy General Manager, Human Resource Manager, Finance Manager and Marketing Manager remained vacant till December 31, 2022 and acting officers had been appointed for the posts of Human Resource Manager and Finance Manager. | Not Commented. | As per 13.3 of Chapter 11 of the Code of Institution,
A acting working appointment should only be made as a temporary remedy pending a regular appointment. Accordingly, if the post requires the services of a full-time officer, regular appointment should be made without delay. |