

## **Paranthan Chemicals Company Limited - 2023**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Paranthan Chemicals Company Limited (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information, 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, 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 Opinion**

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**

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 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 intend 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 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 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 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 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 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 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 Accounts Receivable and Payable

### 1.5.1 Accounts Receivable

Audit Observation	Comments of the Management	Recommendation
Actions had not been taken even in the year under review to recover 03 debtor balances for more than 05 years amounted to Rs. 3,687,446 .	Letters have been sent informing to settle the balances.	Steps should be taken to recover or write off.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Paragraph 02 of the Social Security Contribution Levy Implementation Act No. 25 dated 20 September 2022 of Inland Revenue Department	Even though it had been stated that any person or entity should be paid a 2.5 per cent social security levy on sales to the Inland Revenue Department, the social security levy of Rs.19,224,632 which is 2.5 per cent of the sales revenue of the Company that was Rs.768,985,296 in the year under review had not been paid to the Inland Revenue Department.	Actions will be taken to pay in the year 2024.	Actions should be taken in terms of the Act.

## 2. Financial Review

### 2.1 Financial Result

The operational result of the year under review amounted to a profit of Rs. 479,965,403 and the corresponding profit in the preceding year amounted to Rs. 362,358,886. Therefore, an improvement amounting to Rs. 117,606,517 was observed. The increase in sales revenue of Chlorine Cylinders, Caustic Soda liquid, Bleaching liquid by Rs. 73,357,165, Rs.2,713,006 and Rs.4,835,889 respectively and fixed deposit interest income by Rs. 59,605,380 had mainly contributed for this improvement.

### 3. Operational Review

#### 3.1 Identified Losses

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
When sending 3 containers containing 42 empty chlorine cylinders to chlorine supply company in Bangladesh on 07 October 2022, the Company had to pay a delay charge of Rs.6,830,145 to that institution due to failure to send documents related to release those containers on time. Actions had not been taken so far to recover the loss related to that from the responsible officers.	The report on conducting of investigation in this regard by the Ministry has not been issued and our institution has informed to complete this investigation very soon and submit.	The Management should be responsible to take actions to avoid making losses to the Company.

#### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A number of 5,997 bags of 25 kg caustic soda valued at Rs.38,644,540 had been purchased from Bangladesh without predicting the quantity required in the year 2022. A number of 1,869 bags of 25 kg caustic soda valued at Rs. 15,022,368, equal to 31 per cent from this stock had remained and due to the expiry date of that stock was 26 August 2023, the stock had been expired.	That situation had to be faced due to failure of providing orders from government agencies as expected.	Actions should be taken to identify the requirement and order the stock.

#### 3.3 Delays in Project or Capital Works

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) A proposal had been made to install a plant for chlorine production on the 227 acres of Paranthan premises in 2016. Even though Rs. 7,611,110 and Rs. 5,483,617 had been spent for the feasibility study and the development of Paranthan land and the cultivation of plants respectively from the year 2018 to the end of the year 2023 for that, the construction works of the plant had not been started up to now.	Even though the feasibility study activities have been completed, discussions have been held at the ministerial level to receive the necessary provisions thereon and as this institution was subjected to restructuring, all activities related to the project will be carried out through that unit.	Necessary actions should be taken to start the chlorine production.

- (b) As the Company has engaged in importing liquid chlorine required for drinking water safety in Sri Lanka and distributing it to the Water Supply and Drainage Board and in the manufacturing of Hydrochloric Acid (HCL) and Sodium Hypochlorite chemicals to get a feasibility study done from Sri Lanka Institute of Nano Technology (Private) on the possibility of manufacturing urea fertilizer in Sri Lanka, a sum of Rs.35,353,000 had been given to the institution on 31 December 2020. Even though the task had not been completed even by the end of 2023.
- A discussion in this regard, was held between our institution and the Nano Technology Institute at the Ministry of Finance and the Ministry officers have informed to resume the task. The amount related to the Nano Technology Institute has been deposited in the fixed deposit account.
- Actions should be taken to carry out the feasibility study and start the production of urea fertilizer quickly.