

Paranthan Chemicals Company Limited - 2022

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 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit and loss, 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. 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 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 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 Responsibility regarding the audit of 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 Non-compliance with Laws, Rules, Regulations, and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comments	Recommendation
(a) Paragraph 3.1.4 of the Public Procurement Guidelines 2006	International Competitive Bidding System had been applied for the purchase of 196 chlorine cylinders with 900 kg during the year under review and although the procurement entity had been ordered that the procurement notices should be advertised internationally through various media to ensure maximum competition, the Company had published the advertisement only on 2 websites of Paranthan Company and Ministry of Industries. Due to the less publicity, bids were submitted from 4 institutions for this and out of which, only 2 institutions had submitted bid securities.	Internationally Competitive Bids have been called by publishing the advertisement on the Ministry of Industries website and on the websites of Paranthan Chemicals Company Ltd. and due to the spread of the Corona epidemic in Sri Lanka during this period, there were severe difficulties in the affairs of government institutions, transportation affairs, banking affairs and there was a severe shortage of foreign exchange in the state-owned banks. It is informed that the aforesaid tender was opened amidst severe difficulties and it was a procurement activity that was carried out amid the extreme difficulties of the world's shipping lanes and shipping traffic and it is informed that it is a procurement made in the face of difficulties based on the recommendations of the Technical Evaluation Committee and as per the prescribed procurement practices according to the approval of the Departmental Tender Board.	Actions should be taken in terms of Procurement Guidelines.

- (b) Paragraph 6.6 of the Operational Manual for State Owned Enterprises of Public Enterprises Circular No. 01/2021 dated 16 November 2021
- Although a copy of the Financial Statements and Draft Annual Report for the year under review should be submitted to the Auditor General within sixty (60) days after the end of the accounting year, the Company had submitted its financial statements for the year under review on 14 June 2023 that is after a delay of 3 months and 15 days and a copy of the said annual report was not submitted for audit until 02 October 2023, which was the date of audit.
- Actions will be taken to submit the relevant financial statements in the year 2023.
- Actions should be taken in terms of the Circular.

2. Financial Review

2.1 Financial Results

The operational result for the year under review was a surplus of Rs. 362,358,886 and the corresponding surplus as compared to the year was Rs.138,180,996. Accordingly, an improvement of Rs. 224,177,890 was observed in the financial result. The increase in chlorine cylinder sales revenue by Rs.307.3 Mn. , caustic soda sales income by Rs. 28.3 Mn. and fixed deposit interest income by Rs. 70.08 Mn. had mainly attributed for this improvement.

3. Operational Review

3.1. Identified Losses

Audit Observation	Management Comment	Recommendation
(a) Twenty eight empty cylinders of 900 kg (2 containers) belonging to Paranthan Chemicals Company Ltd. and 14 empty cylinders of 1000 kg (1 container) belonging to Samudra Company had been sent from Sri Lanka Port to Bangladesh Samudra Chemicals Complex Limited on 07 October 2022. Even though the Company had informed in writing on 13 October 2022 that the ship arrived at the Port of Chittagong, Bangladesh, the Supply Division of the Company had not provided the relevant	A Committee consisting of three officials has been appointed regarding this matter with the participation of the Mrs. Namagal, Director of the Ministry of Industry and the Company has not received that report up to now. After receiving the report, further action is to be taken according to its recommendations.	Actions should be taken so as not to incur losses to the Company

invoice and documents related to the loads to Samudra Chemicals Ltd. even by 30 November 2022 . Due to non-submission of those documents, the empty cylinders used for importing liquid chlorine could not be released within the prescribed period, the Company had to pay a delay charge of Rs.6,830,145 to Samudra Chemicals Complex Ltd.. Likewise, actions had also not been taken to recover the relevant loss from the responsible officers.

(b) The Board of Directors had given approval for paddy cultivation on 20 acres of Paranthan land and for this purpose, a sum of Rs. 1,706,748 had been spent in the year under review for works such as preparing the land, purchasing paddy, and constructing a security fence. Even though 13 bushels out of the 60 bushels of paddy seed purchased by the Company had been sown, as a result of the failure of this project due to make delays for sowing, the expenditure made had become useless.

This paddy seed has been converted to rice and prepared for sale by now. Further, approval was obtained for paddy cultivation as per the Decision of the Board of Directors. This is not only for the protection of paddy cultivation, as a capital project, this protective fence was built to protect the land and to prevent squatters as per the instructions of the Secretary of the Line Ministry. Further, this is a task included in the capital project of Paranthan Chemicals Company Ltd.

(c) A caustic soda liquid manufacturing project was started on 30 December 2015 at Kalutara Nagoda Industrial Estate in order to add value to caustic soda and with a view to reach to the markets which is unable to fulfill currently by Paranthan Chemicals and the work of it had been completed on 25 April 2016. Although an expenditure of Rs.2,089,000 had been incurred to prepare the machine, due to the ineffectiveness of this project, this machine was dismantled and parts of the machine were left lying to be decayed on the ground without being used.

Iron tanks removed from the caustic soda project have been sent to the Wagawatta Unit for water storage and the stainless steel scrubber system is expected to be used in caustic dissolution pits. The initial steps have already been started for that. Projects should be started after carrying out proper study so as not to incur losses to the Company.

3.2 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) The Management had not taken actions to review the useful lives of the fully depreciated property, plant and equipment cost at Rs.242,768,692 .</p>	<p>This will be corrected in the year 2023.</p>	<p>Actions should be taken to review the useful life of the assets.</p>
<p>(b) A number of 5,997 bags of 25 kg caustic soda valued at Rs.38,644,540 had been purchased from Bangladesh on two occasions. A number of 2,277 bags of 25 kg caustic soda valued at Rs. 18,315,488, that is 37 per cent, has saved even by 12 July 2023 which was the date of audit and the expiry date of this stock had been recorded as 26 August 2023 .</p>	<p>These stocks have been purchased with the view of getting sales income for competitively sold caustic soda. An order of 40 MT from the Lanka Sugar Company and several other government tenders were submitted and they were also to be received by the Company. Subsequently, due to lack of placing orders from government agencies as expected, the situation had to be faced.</p>	<p>Actions should be taken to take decisions so that the company does not incur losses.</p>

3.3 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
<p>The sales income of the year under review was Rs.722,084,984 and the sales income of the preceding year was Rs.395,462,174. Even though the sales of 68 kg and 900 kg, 1000 kg chlorine cylinders had decreased by 6 per cent and 20 per cent respectively over the previous year, sales income had increased by 97 per cent and 75 per cent respectively. Even though sales of caustic soda had increased by 64 per cent the increase in its income was 710 per cent. Accordingly, the increase in their prices had caused to an increase of 82 per cent in the sales income of the year under review as compared to the preceding year.</p>	<p>Some establishments have stopped their production activities due to the fall in the sales of small scale consumers with the increase in the price of the dollar in Sri Lanka in the year 2022. Therefore, it has also caused to reduce the sales of 68 kg liquid chlorine cylinders.</p> <p>Due to very sparing use of chlorine, quantitative sales to the National Water Supply and Drainage Board have also decreased and due to rapid increase in purchase prices as a result of high chlorine prices in the world market, high shipping charges and other taxes and the rise in the value of the dollar, it has caused to increase in sales price as well.</p>	<p>Arrangements should be made to increase the amount of sales.</p>

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
<p>(a) The upstairs of 5250 square feet office building on two acres of land belonging to Paranthan Chemical Company Ltd. in Fullerton Industrial Estate, Kalutara Nagoda consisted of 2 rooms with 2 adjoining bathrooms, a laboratory and a conference room to suit the Higher Management and it is currently being used as a warehouse where empty liquid bottles and protective suits are packed without any use. As a result, it had been seen that this office building is underutilized.</p>	<p>Kalutara Unit is required to store the bleaching liquid bottles and cans which are produced in the Wagawatta Unit. Because those bottles and cans are damaged when storing them on a rough surface, they have been stored in the 'TO Room' in the Bleaching Filling Building with a tiled surface and the balance in one of the rooms of the administration building. Two assistant managers and one female officer are working on the ground floor of the administration building and the female Technical Officer uses the laboratory of the upstairs.</p>	<p>An office buildings should not be used as a warehouse.</p>
<p>(b) According to the Board of survey reports, 11 unusable chlorine cylinders have been named at the Wagawatta Filling Station and even though the cylinders had been proposed to be auctioned and sold, no actions whatsoever had been taken even the date of audit.</p>	<p>The newspaper advertisement related to the auction of these cylinders has been published in Dinamina Newspaper dated 22.08.2023 .</p>	<p>Actions should be taken to dispose the unusable scrap immediately.</p>

3.5 Delays in Project or Capital Works

Audit Observation	Management Comment	Recommendation
<p>(a) It had been proposed to establish a plant for chlorine production on the 227-acre Paranthan land in 2016 and even though expenses Rs.6,469,444 and Rs.4,693,617 had been incurred respectively, from the year 2018 to the year 2021 for that for the feasibility studies and development of Paranthan land and cultivation of plants, the construction works of the plant had not yet been started.</p>	<p>The total cost of this Project has been estimated by now. Accordingly, the cost for machinery, civil construction works, storage facilities, construction works etc. is USD 32.0. The funds have been requested for this from the Budget 2022 and the balance has to be financed mainly by a project loan and the savings of Paranthan Chemical Company Ltd. . A sum of Rs.200 million have been received from the Budget 2023 for infrastructure development for caustic</p>	<p>Necessary actions should be taken to commence chlorine production.</p>

soda project. After completing the procurement process, the file required for the selection of a suitable consultancy firm for this has been forwarded to the Secretary of the Line Ministry.

- (b) Even though a sum of Rs.35,353,000 had been given to the Paranthan Chemicals Company Ltd. on 31 December 2020 to get a feasibility study done by the Sri Lanka Institute of Nanotechnology (Private) on the possibility of producing urea fertilizer in Sri Lanka, since Company is engaged in the importation of liquid chlorine required for the safety of drinking water in Sri Lanka and distribution to the Water Supply and Water Transport Board and the production of Hydrochloric Acid (HCL) and Sodium Hypochlorite chemicals, the Project had not been commenced even by July 2023 .
- A revised cost estimate has been obtained from SLINTEC the next steps to be taken regarding this project are as per the instructions received from the Line Ministry. A letter has been sent to the Ministry of Finance to get necessary instructions for that.
- Arrangements should be made to carry out the feasibility study and commence the production promptly.