

State Printing Corporation -2011

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the State Printing Corporation as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1.2.1 Non-compliance with Sri Lanka Accounting Standards

The following non-compliances with the Sri Lanka Accounting Standards were observed in audit.

Reference to Sri Lanka Accounting Standards	Non-compliance
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(a) SLAS No.05	Unused raw materials and a stock of unsalable exercise books at the total value of Rs,4,689,642 had been included in the finished goods and action had not been taken to adjust the value of those stocks in accordance with the Standards.
(b) SLAS No.18	Even though fully depreciated assets which are still used for operational activities should be revalued and brought to

account, action had not been taken even during the year under review in respect of fixed assets which were fully depreciated several years ago.

1.2.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) An income amounting to Rs.1,116,903 obtained during the year 2010 from sale of rejected papers had been shown as income for the year under review.
- (b) Advances not settled during the year under review amounting to Rs.1,728,961 had been shown after deducting from the creditors balances without being shown as advances receivable.

1.2.3 Unreconciled Accounts

Even though sums Rs.5,257,174 and Rs.4,788,576 respectively had been shown in the accounts as loan receivable and loan payable as at the end of the year under review relating to the National Paper Corporation, according to the confirmation of balances of the National Paper Corporation, loans receivable from and loans payable to the Printing Corporation amounted to Rs.4,673,863 and Rs.3,566,223 respectively and as such differences of Rs.583,311 and Rs.1,222,353 respectively were observed.

1.2.4 Accounts Receivable

The following matters were observed.

- (a) The value of trade debtors as at the end of the year under review amounted to Rs.474,810,854 and out of this, only the debtors amounting to Rs.396,176 had been confirmed. Confirmation of balances had been called only for the debtor balances relating to the year under review while confirmation of balances had not been called for any of the balances existing for more than 01 year.

- (b) Out of the balances of the trade debtors as at the end of the year under review amounting to Rs.474,810,854 , the debtor balances amounting to Rs.76,079,850, Rs.57,184,740 and Rs.24,858,601 had remained more than 1, 2 and 5 years respectively.
- (c) Out of the trade debtors of the trade stalls for the year 2010, number of debtors from whom any amount not recovered during the year under review was twenty and the value of those debtors amounted to Rs.3,655,380.
- (d) A sum of Rs.5,314,296 to be recovered relating to 11 invoices issued for the years 2006, 2007 and 2010 had not been recovered up to up to 31 December 2011.
- (e) The unsettled advances as at 31 December 2011 amounted to Rs.4,813,153 and out of that the advances of Rs.1,525,593 had been given prior to 2 years .

1.2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances with laws, rules and regulations etc. were observed.

<u>Reference to Laws, Rules, Regulations etc</u>	<u>Non-compliance</u>
(a) Paragraphs 10:1 and 10:4 of the Public Administration Circular No.3/2000 dated 21 January 2000.	Necessary prior approval had not been obtained in respect of foreign travels occurred by spending Rs.2,799,538.
(b) Circular No.01/2010/01 dated 11 October 2010 of the Ministry of Finance and Planning.	Advances obtained for foreign travels occurred during the period from 01 January to 31 July 2011 by spending Rs.2,799,538 had not been settled.
(c) Public Enterprises Circular No.12 dated 02 June 2003.	Sums aggregating Rs.614,787 had been paid in 08 instances to a private institution during the year 2011 as accommodation charges of the Chairman. A sum of Rs.2,500,000 had been paid by the Corporation during the year 2011 as

donations without obtaining approval of the Cabinet of Ministers.

1.2.6 Transactions of Contentious Nature

The following matters were observed.

- (a) A stock of books at the value of Rs.3,381,000 approximately issued to the trade stall, Kandy for selling purpose in the month of November 2010 had not been received by the trade stall, Kandy. The Chairman informed that “this is the stock which was issued to the female officer in charge of the trade stall, Kandy for utilizing it to the sales promotion activities in the Central Province and it is not necessary to include in the Bin Card as it had been used for sales promotion activities.
- (b) The date of transactions had not been pointed out in 32 copies of invoices for cash sales valued aggregating Rs.731,367 at the trade stalls, Kandy and as such, it was unable to ensure whether the funds had been deposited in the Bank without delay. However, the Chairman informed that the date of receipt of money had been pointed out in the copies of invoices received by the Finance Division and most of the instances money had been deposited at the Bank in the following day itself.

2. Financial Review

2.1 Financial Results

The operation of the Corporation had resulted in a pre-tax net profit of Rs.133,688,336 for the year under review as compared with the pre-tax net profit of Rs.92,128,005 of the preceding year thus indicating an improvement of Rs.41,560,331 in the financial results. The matters such as considerable increase of the value of closing stocks of the year under review as compared with the preceding year and as a result, indicating a considerable increase in the gross profit had been the reasons for the improvement in financial results.

2.2 Analytical Financial Review

Important data relating to the financial results with the comparative values for the preceding year are given below.

	<u>For the year ended 31 December</u>			
	2011	%	2010	%
	Rs.(‘000)		Rs.(‘000)	
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Sales	1,199,585	-	985,404	-
Cost of Sales	792,849	-	654,031	-
Gross Profit	406,736	33.9%	333,373	33.36%
Income Tax	56,688	-	40,086	-
Net Profit (After Tax)	77,000	6.4%	52,042	5.3%

3. Operating Review

3.1 Performance

Information of the sales and production are given below as compared with the preceding year.

3.1.1 Sales Activities

Sales	2011	2010	Variance	
	Rs.(‘000)	Rs.(‘000)	Rs.(‘000)	%
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School Books	715,714	618,088	97,626	15.8
Commercial Printing	286,237	203,545	82,692	40.6
Exercise Books	166,067	141,545	24,522	17.3
Others	31,567	22,226	9,341	42.0

3.1.2 Production Activities

Production	2011		2010		Variance		
	<u>Unit</u>	<u>Rs.(‘000)</u>	<u>Unit</u>	<u>Rs.(‘000)</u>	<u>Unit</u>	<u>Rs.(‘000)</u>	%
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School Books (Copies ‘000)	10816	} 595,021	7465	} 535,725	3351	} 59,296	11.1
Commercial Printing (Number of Works)	851		723		128		
Exercise Books (Copies ‘000)	8162	124,298	7251	96,483	911	27,815	28.8
Others (Copies)	-		1000	1,273	(1000)	(1,273)	

3.2 Management Inefficiencies

 The following observations are made.

- (a) Action had not been taken to recover the balances amounting to Rs.3.12 million to be recovered from the Wayamba Special Project and to obtain the balance stock of unsold books as at end of the year under review. Further, legal action had not been taken to recover a sum of Rs.645,245 not paid to the Corporation by the Sales Promotion Officers in charge of the

Project activities but, those two officers who are not attached to the permanent staff of the Corporation had deserted in the services of the Corporation.

- (b) A total sum of Rs.54,889,800 had been paid during the year under review being fines amounting to Rs.25,945,168 and Rs.28,944,632 for the years 2010 and 2011 respectively in view of inability to print and handing over of books within the specified dates and not printing the school text books in accordance with the relevant specifications.
- (c) Action had not been taken to obtain an insurance cover relating to stocks and properties existed at the wholesale stores, Sangaraja Mawatha and trade stalls of the Corporation.
- (d) Action had not been taken to update rental agreements of 05 trade stalls obtained on rental basis.
- (e) A discount of 40 per cent is provided to customer for orders obtained for selling of exercise books of the Corporation for more than Rs.10,000 and the balance 60 per cent is covered by cost of production and profit of the Corporation. Thereby, a large portion of profits flows to private parties and only a small percentage of the profit remains to the Corporation. The Chairman informed in this regard that the cost of production is higher as compared with the private institution and if changes are made in the percentage of discounts, it will affect to the request for the production of the Corporation and as such the flow of higher percentage of profit to the private party is an unavoidable matter.
- (f) This discount system for cash sales had been adopted for a customer in the Central Province from the year 2010. The balance to be recovered from him as at 31 December 2011 amounted to Rs.2,188,401. Action had not been taken to obtain even a security bond to recover money at the time of involvement of risk.
- (g) Orders valued at Rs.5,397,603 had been accepted for printing a stock of books for the Saumyamoorthi Thondaman Foundation and a sum of Rs.1,900,000 appropriately had been obtained as advance. A stock of books valued at Rs.1,440,805 had been printed as part of the order and issued while a stock of books and covers valued at Rs.1,030,875 had been printed and kept at the stores for more than one year.

3.3 Idle and Underutilized Assets

The following observations are made.

- (a) A stock of exercise books valued at Rs.5,075,327 had been kept at the stores in unusable condition.
- (b) Manufactured books had existed at the stores of the trade stall without selling and the value of the stocks remained as such at the trade stalls, Gampaha and Kandy amounted to Rs.827,300 and Rs.520,065 respectively.

3.4 Identified Losses

The following observations are made.

- (a) Action had not been taken to recover the cash shortage of Rs.227,656 occurred at the International Book Exhibition during the year 2010 and 2011 from the relevant officer.
- (b) The shortage of stocks aggregating Rs.544,337 as at the end of the year under review had not been recovered from the officers responsible for that and of this value, a sum of Rs.322,132 had been written off from the books. Action had not been taken up to the year under review to recover the balance amount of Rs.222,205.

3.5 Resources of the Board given to other Government Institutions

Eleven employees of the Corporation had been released to the Ministry of Mass Media and Information and the Western Provincial Council. A total sum of Rs.2,156,638 comprising Rs.1,917,670 as salaries and Rs.238,968 as overtime had been paid by the Corporation during the year under review.

3.6 Staff Administration

The following observations are made.

- (a) A person had been recruited by creating a post named as Establishment Manager without the approval of the Department of Management Services and a monthly allowance at the rate of Rs.30,000 and a vehicle on the basis of a monthly rental of Rs.40,000 had been provided. Further, a person had been recruited for a post named as Personal Assistant and a monthly allowance at the rate of Rs.20,000 had been paid. The Chairman informed that this post was created considering the maintenance of building and environmental development activities and it had been presented for the approval of the Department of Management Services with the approval of the Board of Directors.
- (b) Contrary to the Public Administration Circular No.26/2010 dated 31 December 2010, 106 employees had been recruited and a sum of Rs.19,565,586 had been paid as salaries during the year 2011. The Chairman informed that “the recruitment had been made in lower level on contract, casual and daily pay basis only for carrying out necessary activities until the recruitment is made with proper approval and recruitment will be made properly after obtaining relevant approval from the Department of Management Services”.
- (c) Even though the vacancy for the post of Chief Internal Auditor of the Corporation had existed for a period of 04 years, action had not been taken to fill this vacancy.
- (d) It was observed that staff had been deployed excessively at the trade stall, Kandy and 11 employees comprising 08 employees on contract basis and 03 employees on casual basis had been deployed in the service. Sales income, responsibilities on stocks and responsibilities on all the activities of the trade stalls had been entrusted to a female officer in charge to the station recruited on casual basis.

3.7 Vehicle Utilization

There were 27 vehicles belonging to the Corporation consist of 18 pool vehicles, 05 vehicles allocated to the officers and 02 vehicles released to the Ministry. The audit test check revealed that fuels valued at Rs.211,944 had been utilized for 02 vehicles allocated to the officers contrary to the provision.

3. Accountability and Good Governance

The following observations are made.

4.1 Corporate Plan

Even though a Corporate Plan had been prepared by the Corporation for the period 2009-2013, this Corporate Plan had not been up dated annually in accordance with paragraph 5.1.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.

4.2 Action Plan

Even though an Action Plan should be prepared for achieving all the targets in the Corporate Plan relating to the year under review, the Action Plan had been prepared showing only the targeted quantity and value of the production of the Corporation. Accordingly, the possibility of utilizing the Action Plan as an effective instrument of control had diminished.

4.3 Procurement Plan

The procurement plan had been prepared and approved only on 26 May 2011.

4.4 Budgetary Control

Significant variances were observed between the budgeted and actual balances. Therefore, the Budget had not been made use of as an effective instrument of control.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Accounts Receivable
- (c) Settlement of Advances
- (d) Budgetary Control
- (e) Financial Control
- (f) Stock Control
- (g) Internal Audit