State Printing Corporation - 2014

The audit of Financial Statements of the State Printing Corporation for the year ended 31 December 2014, comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 23 of the State Printing Corporation Act, No. 24 of 1968. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards and for such internal controls as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the corporation's preparation and fair presentation of the financial statements 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 corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-section (3) and (4) of section 13 of the Finance Act No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report

2. Financial statements

2.1 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 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

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

(a) Sri Lanka Accounting Standard No. - 01

Eventhough assets and liabilities should not be set-off against each other, credit balances of Sales Ledger control account amounting to Rs.1,443,477 had been set-off against the other receivable balances and shown in the financial statements.

(b) Sri Lanka Accounting Standard No.- 02

Eventhough it was disclosed the value of closing stock in the financial statements that it had been valued at cost or net realisable value whichever was lower and the value of stock stated at its cost of Rs.374,745,859 in the financial statements, evidence to ensure whether the cost of stock had been reconciled with the net realisable value was not made available for audit.

(c) Sri Lanka Accounting Standard No.07

Prior year adjustments amounting to Rs.86,702,069 and payment of taxes amounting to Rs.42,583,879 irrelevant to the cash flow of the year under review had been adjusted.

(d) Sri Lanka Accounting Standard No. 08

Without restating the financial position by adjusting the rectification of errors in prior years retrospectively a sum of Rs.16,628,392 had been adjusted to the accumulated profit brought forward.

(e) Sri Lanka Accounting Standard No. -12

The accounting policy of the accounting of differed tax had not been disclosed in the financial statements. Temporary differences and permanent differences specially arise in the tax computation had not been identified and disclosed in the financial statements.

(f) Sri Lanka Accounting Standard No.-16

Assets costing Rs.199,729,627 which had been fully depreciated but still in use had not been disclosed in the financial statements. Similarly, the particulars of Lands, buildings and plants, which had been kept as securities for obtaining a loan of Rs.494 million and the nature of lease had not been disclosed in the financial statements.

(g) Sri Lanka Accounting Standard No.-19

A General description of retirement benefit plan in respect of accounting retirement benefit, particulars of adjusting the present value of opening and closing balances, present service cost, interests, actuarial gain or loss, previous cost of service etc. had not been identified and the manner in which its gain or loss was adjusted had not been disclosed in the financial statements.

(h) Sri Lanka Accounting Standard No.-23

Eventhough entities were encouraged to consider the capitalisation of borrowing cost, the corporation had not taken action to capitalise the borrowing cost by identifying the capitalisable borrowing cost related to the qualified assets and it had been written off against the revenue as a recurrent expenditure.

(i) Sri Lanka Accounting Standard No. -24

Nature of transactions with related parties and other Government institutions and the particulars of transactions made through the Private Secretary of the Former Chairman had not been disclosed in the financial statements.

(j) Sri Lanka Accounting Standard No.-39

Without computing the impired value of trade debtors valued at Rs.809,256,090, Debtors had been shown in the statement of financial position after being deducted a provision for bad debts amounting to Rs.20,231,402 from Debtors.

2.2.2 Accounting Policies

The policy of making provision for bad and doubtful debts of the Corporation is 2.5 per cent from the overall debtors. Nevertheless, it was observed that a sufficient provision for bad debts had not been made, as the unrecoverable debts for more than 5 years exceeded Rs.43 million.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) In accounting the Nation Building Tax expense, only the expenditure incurred by the Corporation should be identified. Nevertheless, taxes collected from customers had also been included in the Nation Building Tax expenses of Rs.14,728,700 in the year.

(b) Although the short term loan balance as at 31 December of the year under review amounted to Rs.494,970,217, the interest payable thereon had not been computed and shown in the financial statements.

(c) According to the information made available for audit, the fines and delayed charges recoverable as per the condition of agreement for the year under review, in respect of printing matters which had not been completed and handed over on the agreed date amounted to Rs.48,472,330 but only a provision of Rs.23,449,201 had been made therefor. Similarly, this provision had been deducted from sales instead of deducting from debtors.

(d) Provision for audit fees for the year under review had not been made.

2.2.4 Unreconciled Control Accounts

The following observations are made.

(a) Neither the credit balance of Rs.1,443,477 in the sales collection account had been reconciled with the sales control account nor settled accordingly.

(b) According to the invoice value of school text books issued during the year under review and the ledger account, a difference of Rs.48,907,179 was observed in the relevant text book income.

2.2.5 Lack of evidence for audit

Evidence shown against each item of the following was not made available to audit.

	Particulars	Value Rs.	Evidence not made available
(a)	Trade debtors	282,283,756	Confirmation of balances
(b)	Adjustment of penalties	5,460,991	Sales invoices
(c)	Business promotion programs	236,250	Details of Programmes
(d)	Trade creditors	946,480	Confirmation of balances
(e)	Suspense account (Adjustment to expenditure)	4,436,636	Details related to write off against income identified as expenditure

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Due to inefficiency in debt collection of the Corporation, the opening balance of Loans of Rs.750,607,688 at the beginning of the year under review had increased to Rs.809,256,090 or by 8 per cent at the end of the year under review. Of these trade debtors sums of Rs.36,029,161 and Rs.65,443,837 had remained unrecovered for more than 01 year and 2 to 4 years respectively. The balance of Debtors over 5 years amounted to Rs.43,453,396.

(b) The debt due from a sales agent who had been appointed to sell exercise books of the Corporation since 2010 amounted to Rs.5,747,194 as at the end of the year under review. In granting of this credit, guarantees had not been obtained from this agent, and credit had been granted on the order of the Former Chairman. 40 per cent discount on cash sales had also been given in selling exercise books on credit basis without guarantees.

(c) The debtor balance of Rs.5,491,302 recoverable since the year 2012 in Anuradhapura Sales depot had not been settled even by 30 May 2015. This credit had been granted deviating the normal credit procedure on, the verbal instructions of the Former Chairman. Eventhough the default of this loan had been complained to the police, legal action had not been taken to recover the debts.

(d) Eventhough it was suggested at the Audit and Management Committee meetings to expedite the recovery of debts from sale of exercise books on credit basis and to formulate a proper system thereon, it had not been done so.

(e) Debtors balance, due from the National Paper Company, older than 01 year amounted to Rs.7,989,976.

(f) The recoverability of Rs.1,818,829 due from the Ministry of Economic Development was uncertain.

(g) Creditors balance payable as at 31 December of the year under review amounted to Rs.59,781,032 and the value of creditors unsettled for the period between 2 to 5 years according to the age analysis of creditors amounted to Rs.22,927,868, representing 39 per cent of the total creditors.

(h) Action had not been taken by the corporation to pay income tax related to the previous years amounting to Rs.72,813,671 payable to the Department of Inland Revenue even by 29 May 2015.

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

The following non-compliances with laws, rules, regulations and management decisions were observed in audit.

Reference to laws, rules regulations etc.	Non-compliance
(a) Sub Section 26(1) of the Value Added Tax Act No.14 of 2002	Value Added Tax totalling Rs.98,399,136 collected from customers from 2009 to the end of the year under review had not been remitted to the Department of Inland Revenue even up to 30 June 2015.

(b)	Section 4 of the Nation Building Tax Act No. 09 of 2009	A sum of Rs.68,705,093 collected from customers from 2009 to the year under review had not been remitted to the Department of Inland Revenue even up to 30 June 2015.
(c)	Companies Act No.07 of 2007	A Personal Assistant to the former Chairman of the Corporation established a private company and had transactions with the Corporation. In doing transactions as such, the Corporation had purchased papers valued Rs.46,566,658 from a person who was not formally authorised to perform any duties on behalf of the company in accordance with the Companies Act.
(d)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka	An advance of Rs.1,050,000 given on 11 April 2013 for the purchase of equipments required for the Chairman's official vehicle had not been settled even by 30 June 2015.
(e)	Public Administration Circular No.13/2008(iv) dated 09 February 2011	A sum of Rs.1,530,113 had been paid for the fuel of official vehicles used by 4 officers in excess of the approved fuel limit.
(f)	Paragraph 8.3.5 of the Public Enterprises Circular No.PED/12 of 02 June 2003	In addition to the motor vehicle given to the former Chairman, another 2 vehicles had been used up to July of the year under review.

2.5 Transactions of Contentious Nature

The following observations are made.

(a) Despite the exhibition trade stall 'Deyata Kirula' of the year under review (Kuliyapitiya) had been built by the Ministry of Mass Media, a sum of Rs.2,130,576 had been spent by the Corporation only for the finishing of inside the trade stall and it could not be satisfied in audit.

(b) The Corporation had given an assignment to a private audit firm for the preparation of the financial statements for the year under review for Rs.820,000. Despite there were more than 50 personnel under the supervision of 3 Accountants in the accounts Branch, assignment of this task to a private firm had been observed as a contentious matter.

(c) Pay as you earn tax amounting to Rs.994,201 had not been recovered from the employees concerned and paid by the Corporation and accounted under operating expenses.

3. Financial Review

3.1 Financial Result

The operation of the Corporation for the year under review had resulted in a pre-tax net profit of Rs.71,153,661 as compared with the pre-tax net profit of Rs.78,095,872 for the preceding year. This indicated a decrease of a sum of Rs.6,942,211 in the financial results of the year under review as compared with the preceding year. Eventhough sales income had improved by Rs.97,134,411 in the year under review as compared with the preceding year, cost of sales and the expenditure of the year under review had increased by Rs.77,015,131 and Rs.28,711,539 respectively, and they were the main reasons for this decrease.

3.2 Loan Utilization

The short term loan obtained from a state bank during the year under review amounted to Rs.601,781,294 out of which a sum of Rs.494,970,217 had not been settled even by 31 December of the year under review. A sum of Rs.53,633,209 had been paid as loan interest during the year under review, including the additional interest paid due to non-settlement of loans on due dates.

3.3 Working Capital Management

The following observations are made.

(a) The Corporation had operated 3 bank accounts and an interest of Rs.4,700,100 had to be paid in the year under review for overdraft facilities taken from one bank. Due to deterioration of working capital position of the Corporation, there was an increase in obtaining short term bank loans annually and as such the interest cover ratio of the year under review, as compared with the operating profit, had been 49 per cent.

(b) Eighty two per cent of the current assets, included in the Liquid assets had consisted of trade debtors, out of which Rs.92 million had remained unrecovered for more than one year. Attention of the management had not been paid in respect of strategies to improve the liquidity position of the Corporation being recovered the debts expeditiously.

4. Operating Review

4.1 Management Inefficiencies

Attention of the management was not drawn in respect of an efficient stock control system by determining the relevant stock levels of products of the Corporation unhindering the production. As a result, the investment made by the Corporation on redundant and slow-moving stock amounted to Rs.231 million. As the investment of such money on stock without any control, the short term loans payable by the Corporation had increased up to Rs.494 million.

4.2 Operating Inefficiencies

The following observations are made.

(a) A Marketing plan for the year under review covering the entire marketing activities of the Corporation had not been prepared and a plan indicating the marketing targets of exercise books and stationery had only been prepared.

(b) Due to ordering weaknesses of writing papers by the Corporation, production of exercise books was interrupted and as such production of exercise books had dropped by 1,698,537 units valued at Rs.29,700,420 as compared with that of the previous year. In the examination of stock Registers and stock order books revealed that the Corporation had failed to meet consumer demand as a result of non-production of exercise books by identifying the customer demand periodically. As a result, the tendency of market share of the Corporation and sales income had decreased due to non-fulfilling the market requirement.

(c) The corporation had paid a sum of Rs.1,000,000 to the Urban Development Authority as an advance to take a land, 27 perches in extent on the basis of lease to construct a Head Office and a Marketing Division in the year 2013 without the prior approval of the Department of Public Enterprises and without being carried out a financial feasibility study. As this project had been abandoned, the advance paid could not be recovered back.

(d) According to the production plan of the year under review, it was planned to produce 9.13 million school text books at a cost of Rs.730 million. Nevertheless, the actual production of school text books had dropped by Rs.1.9 million, but the cost of production had increased by Rs.31 million.

(e) School text books, the contractual value of which was Rs.428.8 million and Teachers hand books valued at Rs.3.96 million had been handed over to the Department of Educational Publications after a delay of 49 days. Eventhough the corporation had to pay delayed charges of Rs.48 million in the year under review due to this delay, attention had not been paid to the requirement of improving the production efficiency of school text books.

4.3 Idle and Underutilized Assets

The value of damaged stock and non-moving stock as at the end of the year under review amounted to Rs.1,226,224 and Rs.154,741 respectively. Attention had not been drawn to dispose or to take any other appropriate course of action for this stock.

4.4 Weaknesses in Contract Administration

The following observations are made.

(a) The contract for the supply and delivery of cardboard boxes of the Department of Census and Statistics had been awarded to a private firm at a value of Rs.7,067,905 inclusive of VAT. Without taking action to procure by calling formal quotations and without being procured at the market price of Rs.25, a box had been purchased at Rs.66 by incurring a loss of Rs.1,508,390 to the Corporation.

(b) According to the Section 7.9.1 of the Procurement Guidelines the minimum bid should be selected. Contrary to that, the Procurement had been awarded to the 4th highest price which was presented by the above supplier and as such the corporation had incurred a loss of Rs.864,500 due to not selecting the supplier who quoted the lowest price.

(c) Despite the non-appraisal of Technical Committee for purchasing 650 Metric Tons of white writing papers, the bid had been awarded to the Institution which rendered the second highest quotation. As the lowest quotation had not been selected, the Corporation had incurred a loss of Rs.860,600.

4.5 Resources of the Corporation given to other Public Institutions

The following observations are made.

(a) Ten employees of the Corporation had been released to the Ministry of Mass Media and Information and the Ministry of Skilled Development and a sum of Rs.3,731,108 had been paid by the Corporation as salaries, overtime and other allowances in the year under review. Seven of these employees, had been released to the Ministry of Mass Media and Information on the date of recruitment to the Corporation itself. Although any information regarding the employees released to the Ministry of Skilled Development was not presented to the Corporation, salaries had been continuously paid without any supervision.

(b) Out of the lands, 48 Acres in extent belongs to the Corporation, 13 Acres, 2 Roods and 6 Perches had been given for an Industrial Village. But the particulars of the transferee were not made available for audit.

4.6 Personnel Administration

The following observations are made.

(a) Although the approved cadre as at 31 December 2014 amounted to 686, the actual cadre was 578 and as such the number of vacancies was 108. Without taking action to fill those vacancies, 90 employees had been recruited without approval to service categories in which there were no vacancies.

(b) Thirty four employees, consisting of 01 employee on causal basis, 21 employees on contract basis and 12 employees on temporary basis had been recruited outside the approved cadre.

(c) New posts namely, (HM 1-1) Operation Manager and (MA3) Project Implementation Officer which were not included in the cadre of the State Printing Corporation in the Management Services Circular No.30 dated 01 June 2009 had been created and recruited without proper approval of the Department of Management Services.

4.7 Motor Vehicle Utilization

An officer had been appointed to the post of Vice Chairman which was not legal according to the State Printing Corporation Act and a sum of Rs.731,625 for a vehicle obtained on hire basis for his use and a sum of Rs.1,215,464 as fuel and transport allowances to two officers who were not entitled to obtain transport facilities had been paid by the Corporation.

5. Accountability and Good Governance

5.1 Procurement Plan

Eventhough a procurement plan had been prepared, there were instances where action had been taken by deviating the procurement guidelines and a proper stock control system had not been followed. As such action could not be taken in accordance with the procurement plan and it was observed that the management had failed to utilise the procurement plan as an effective instrument of control.

5.2 Budgetary Control

Significant variations were observed between the Budged and actual figures and it was observed that the Budget had not been made use as an effective instrument of management control.

6. Systems and Controls

Weaknesses 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) Accountability
(b) Control of Debtors
(c) Procurement
(d) Financial Control
(e) Utilization of Vehicles
(f) Personnel Management
(g) Stock Control