

Paranthan Chemicals Company Limited - 2016

The audit of the financial statements of the Paranthan Chemicals Company Limited for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 and the statement of profit and loss, 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 explanatory 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. I was assisted by a Firm of Chartered Accountants in public practice to carry out this audit. My comments and observations on the operations of the Company of the year under review which I consider should be presented to Parliament in terms Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Board's Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board 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. 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 risk assessments, the auditor considers internal control relevant to the Company'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 Company'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.

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

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Paranthan Chemicals Company Limited as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Accounts Receivable and Payable

A sum of Rs. 323,547 paid by the Company during the year under review as the gross salary of an officer who had been transferred to the Ministry of Industrial and Commerce on disciplinary grounds from June 2016 had not been taken action to reimbursed from the Ministry.

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

The administration of the Company is carried out under a Competent Authority with effect from 25 September 2015 and as a result of not appointing a Board of Directors even up to 01 June 2017, the date of audit, it had not been possible to conduct the Annual General Meeting of the Company in terms of Section 133 (1) of the Companies Act, No.07 of 2007. Accordingly, the opportunity for the declaration of the dividend of the Company for the year 2016 had been deprived.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Company for the year under review was a net profit of Rs.49,787,271 as compared with the corresponding net profit of Rs. 9,297,372 for the preceding year thus indicating an improvement of Rs.40,489,899 in the financial results during the year under review as compared with the preceding year. The increase in the sales income by Rs.38,351,803 and interest income for the fixed assets by Rs.7,117,953 as compared with the preceding year had mainly attributed to the above improvement.

4. Operating Review

4.1 Performance

The Company which is in operation while giving priority to its vision of being the leader of chemical manufacturing and trading activities of the country with the state sponsorship, was established as a Government factory in a land area of 225 acres at Paranthan in Killinochchi district in 1950 decade and subsequently it was incorporated under the State Industrial Corporation Act, No.49 of 1957. The Factory had issued liquid chlorine, Caustic Soda and Hydrochloric as the main production and Zinc chloride, Ferric chloride and table salt as the by products using local salt as a raw material to the market. However, due to the influence of the terrorist activities broke out in the year 1985, the production of the Paranthan Chemical Factory had been discontinued and chemicals required for the local industries are imported and supplied at present.

The following observations are made on the Performance of the Company.

- (a) The Paranthan Chemicals Company Limited is the only local Company that owns the licence for the import of liquid chlorine, whereas in the import of liquid chlorine through the local agents, a sum of Rs.10,258,247 had been paid as the commission in the year 2016. It was observed in audit that the above expenditure poses a direct impact on the national water supply expenditure.
- (b) Liquid chlorine had been imported from the same team of suppliers over a number of years and the quotations for the liquid chlorine had been submitted to the company while frequently changing the prices of the suppliers as well as the rates of the local importation commissions. Specially, due to lack of international price for chlorine, the Company had to agree to whatever the price quoted by the suppliers.
- (c) For the purpose of preventing the outflow of an extensive amount of foreign exchange to the foreign countries, attention of the Company should be focused on the reconstruction of the Paranthan Factory and carrying out the productions as usual. It was further observed in audit that the Company's attention should be drawn on the possible future risk that may be experienced as a result of importing chemicals over a long period of time despite the availability of a land with the Company which is abundance in natural resources.
- (d) According to the Action Plan of the year under review, the activities such as renovation of the Head office, implementation of Mini Bleaching Powder project and import and supply of 25 metric tons of Soda ash had been included in the Action Plan, whereas such activities had not been carried out.

4.2 Procurement and Contract Process

The following observations are made.

- (a) According to the Guideline 3.1.1 of the Government Procurement Guidelines, 2006, when the capacity of the domestic suppliers are limited, International Competitive Bidding should be called for and according to the Guideline 3.1.4, international publicity should be given to the procurement notice in various media in order to ensure maximum competition. Nevertheless, deviating from that method in the import of chemicals including chlorine valued at Rs.71,154,664 purchased in the year 2016, bids had been called for from the local agents on behalf of the foreign companies by following the National Bidding method.
- (b) A same group of persons hold the ownership and the capacity of Directors of two companies selected as the suppliers relating to above several procurements and it was further observed that three out of the above group were the officers who had resigned from the service of the Paranthan Chemicals Company Limited. Commission amounting to Rs. 3,080,700 had been paid for those agents for the year 2016 alone. Under such circumstances, it could not be satisfied regarding the transparency of the procurement process in audit. Further, necessary disclosures on the related party transactions had not been made as required by the Sri Lanka Accounting Standard 24.

4.3 Weaknesses of the Implementation of Projects

The following observations are made.

- (a) Although 1000 line posts had been purchased by spending Rs.1,217,000 in the year 2011 to erect them around the land of the Company situated at Paranthan, only 68 line posts had been erected by September 2017 and the remaining 932 line posts had been piled up on the land.
- (b) Although a sum of Rs.40 million had been allocated from the Budget, 2016 for the bleaching powder production project planned to be established in Nagoda area in Kalurara, action had not been taken to initiate this project even by September 2017.

4.4 Management Activities

The following observations are made.

- (a) Although the continuous supply of chlorine required for the purification of drinking water to the Water Supply and Drainage Board had been the main function of the Company, it was observed according to the following matters that the Company had not properly accomplished the responsibility of maintaining the required stock level to implement that process
 - (i) Eighty metric tons of chlorine are sold to the Water Supply and Drainage Board monthly and inclusive of that requirement, the monthly requirement had been forecasted as minimum stock level of 165 metric tons and 175

metric tons for the gross sale. Nevertheless, the said stock levels had not been maintained as expected during the period from January 2016 to February 2017 and the stock level had become zero by February 2017.

- (ii) In connection with the liquid chlorine stock control, a reorder level and economic order quantity had not been determined.
- (b) For the circulation process of import of chlorine, delivering them to the Horana Unit, water purification centres and foreign suppliers, the Company owns only 715 cylinders of 900 grams. Further, it was observed that a number of cylinders as significant as 300 are retained with the suppliers in each month. Accordingly, it was observed in audit that the cylinders belonged to the Company were inadequate to maintain the required chlorine stock level.

4.5 Losses and Damages

As the cylinders provided for the import of 756 metric tons of liquid chlorine relating to the Procurement No.PCCL/09/cl₂ /2015/03 dated 16 February 2016 had been unloaded to a harbour not indicated in the license, 28 cylinders could not be released up to September 2017. It was observed in audit that the Company would sustain a loss of Rs.6,305,800 in case the above assets would not be released.

4.6 Idle and Underutilized Assets

For the establishment of operating activities including the Head Office of the Company, an office building and two small buildings had been constructed in Kalutara in the year 2009 by spending a sum of Rs.25,000,000. Nevertheless, the two small buildings had been used for the production and storage of Caustic Soda in the year 2017 by the date of this report and only 4 officers were observed engaging in duties in the two storied office building. Accordingly, those buildings had remained underutilized for more than a period of 7 years.

4.7 Staff Management

In accordance with Section 2:5:1 of Chapter V of the Establishments Code, the temporary releasement of an officers should be limited to 2 years, whereas the Deputy General Manager of the Company had been released from time to time to another Government institutions in five instances from the year 2002 up to the date of this report.

5. Accountability and Good Governance

5.1 Action Plan

Although the Company had prepared an Action Plan, capital purchases and projects amounting to Rs.53.300 million allocated by the Budget had not been included in the Action Plan as required by Paragraph 04 of the Public Finance Circular No.01/2014 dated 14 February 2014.

5.2 **Tabling of Annual Reports**

The Annual Report pertaining to the year 2015 had not been tabled in Parliament as required by Section 6.5.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.

5.3 **Internal Audit**

There was an approved post of Internal Auditor of the Company, whereas an Internal Audit Unit had not been established according to Financial Regulation 133 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and the internal audit activities of the year 2016 had been carried out through a private audit firm.

6. **Systems and Control**

Weaknesses in systems and controls observed during the course of audit were brought to the attention of the Competent Authority of the Company from time to time. Special attention is needed in respect of the following areas of control.

Areas of System and Control	Non-compliance
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(a) Debtors Control	(i) In obtaining cheques relating to the sales of the Company, the loan period given for the buyers had been 30 days. Nevertheless, that period had extended from 30 days to 210 days. (ii) Failure to recover the loan balances that remained receivable over a long period of time.
(b) Maintenance of Registers	Failure to maintain the Cheque Register and the Register of Losses and Damages.
(c) Financial Control	(i) Existing long delays in settling advances and petty cash obtained by the officers. (ii) Preparation of payment vouchers by several officers.