

**1. Financial Statements**

**1.1 Disclaimer of Opinion**

The audit of the financial statements of the National Paper Company Limited for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 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 reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements

**1.2 Basis for Disclaimer of Opinion**

Due to the impact of the matters described in paragraph 1.5 of this report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

**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 intends 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 Audit Scope (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 Audit Observations on the Preparation of Financial Statements**

### **1.5.1 Non-compliance with Sri Lanka Accounting Standards**

<b>Non-Compliance with Reference to the Management Comment Relevant Standard</b>	<b>Recommendation</b>
(a) In accordance with paragraph 32 of Sri Lanka Accounting Standard No.01, income and expenditure and assets and liabilities should never be set off unless permitted by an accounting standard. However, the company had set off assets of Rs. 43,153,550 against liabilities of Rs. 10,151,947 during the year under review.	Action will be taken to carry out future accounting activities in accordance with Accounting Standards. Action should be taken to account in accordance with Accounting Standard.
(b) The company had not calculated income tax expenditure and deferred tax for the year ended 31 March 2019 in accordance with Sri Lanka Accounting Standard No. 12.	Action will be taken to carry out future accounting activities in accordance with Accounting Standards. Action should be taken to account in accordance with Accounting Standard.
(c) According to Sri Lanka Accounting Standard No. 16, the cost of land and the cost of buildings should be identified separately in the financial statements. However, the cost of land and buildings under the company's property, plant and equipment was not identified separately and mentioned as a single value of Rs. 132,274,693.	Action will be taken to carry out future accounting activities in accordance with Accounting Standards. Action should be taken to account in accordance with Accounting Standard.

### 1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Provision for depreciation for the cars of the company was Rs. 3,851,831 and provision for depreciation for computers was Rs. 220,701, and provision for depreciation for utility items was Rs. 220,802, which resulted in an understatement of the annual profit by Rs. 4,293,334.	Action will be taken to carry out future accounting activities in accordance with Accounting Standards.	Action should be taken to account in accordance with Accounting Standard.

### 1.5.3 Documentary Evidences not made available for Audit

Expenditure accounts	11,488,856	Evidence required for verification of transactions related to 10 accounts.	Action will be taken to submit information to the audit.	Relevant evidence should be maintained to verify transactions.
Asset accounts	1,271,410,707	Evidence required for verification of account balances related to 06 accounts	Action will be taken to submit information to the audit.	Relevant evidence should be maintained to verify account balances.
Liability accounts	1,875,391,043	Evidence required for verification of account balances related to 21 accounts.	Action will be taken to submit information to the audit.	Relevant evidence should be maintained to verify account balances.
Receipts as per the cash book	22,211,233	Receipts related to amounts received and documents related to transactions	During that period, the institution was closed and restructuring of the National Paper Company as a diversification project as per the Cabinet approval No. 9/2020 and	Relevant evidence to verify the line-item balances in the financial statements should be submitted to the audit.

Payments 20,030,784 as per the cash book	Vouchers related to payments and documents related to transactions.	action will be taken to carry out future accounting activities in accordance with Accounting Standards.
		During that period, the institution was closed and restructuring of the National Paper Company as a diversification project as per the Cabinet approval No. 9/2020 and action will be taken to carry out future accounting activities in accordance with Accounting Standards

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
(a) The Company had not taken action to identify the parties to recover the debtor balances amounting to Rs. 42,450,103 outstanding for more than six years and the debtor balances amounting to Rs. 67,785,219, which had no age analysis, and to recover the debtor balances.	The institution was closed during that period and the Board of Directors is currently directing to take formal measures to recover those transactions.	Action should be taken to settle the debtor balances expeditiously.

## **2. Financial Review**

### **2.1 Financial Results**

The operating result of the year under review amounted to a profit of Rs. 1,195,325 and the corresponding profit in the preceding year amounted to Rs. 6,674,484. Accordingly, a deterioration amounting to Rs. 5,479,159 of the financial result was observed. This deterioration was mainly due to the decrease in the income from the sale of waste paper by Rs. 8,100,031.

### **2.2 Ratio Analysis**

In the year under review, a gross loss was recorded as in the previous year, which was 1 percent as a percentage. Considering the liquidity ratios of the company, the current ratio was 0.44:1, although the accepted norm should have been 2:1. Further, the quick ratio was 0.37:1, although the accepted norm should have been 1:1. Accordingly, it was observed that the current and quick ratios were lower than the optimal level due to the presence of current liabilities of Rs. 1,451,731,125 and current assets of Rs. 275,435,666, which could not be settled in the long term.

## **3. Operational Review**

### **3.1 Management Inefficiencies**

	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Even though the Company should maintain accounting records and supporting documents that accurately record and explain the transactions of the Company in accordance with Section 148 of the Companies Act, No. 07 of 2007, the competent authorities of the Company had not taken action to safely keep sufficient accounting books and accounting evidence relating to the transactions and events relating to the accounting period.	The Company was closed during this period and was reopened after August 2020. Since that date, the competent authorities have taken action to keep the accounting records and supporting documents safe.	Action should be taken in accordance with Section 148 of the Companies Act, No. 07 of 2007
(b)	Bank reconciliation statements had not been prepared to compare the balance of the company's current account number 164807 of the Bank of Ceylon with the balance in the cash book	Action will be taken to carry out future accounting activities in accordance with Accounting Standards.	Action should be taken to prepare monthly bank reconciliation statements.

<p>(c) Due to non-payment of the outstanding electricity bill of Rs. 483,997,075 due to the Ceylon Electricity Board as at 09 February 2015, the electricity supply to the Valaichchenai factory was temporarily disconnected from that date and due to the absence of electricity supply, the production process had not taken place in the Valaichchenai factory until June 2020. However, as per the letter of the Chief Manager of the Ceylon Electricity Board Number EP/EE (COM)/CS/Bulk Supply dated 08 September 2022 and by the Cabinet Decision No. CP/20/0561/224/015 dated 26 March 2020, after deducting the penalty interest of Rs. 361,992,685, the remaining electricity bill of Rs. 122,004,390 was approved and the factory resumed production in July 2020, subject to the condition of paying it in instalments within a period of six months after the lapse of a period of two years from the date of resumption of production activities. However, by 30 April 2025, the paper company should have been paid the electricity bill of Rs. 111,004,390.</p>	<p>Answers have not been given.</p>	<p>Action should be taken to settle the outstanding electricity bills.</p>
<p>(d) After Perth Engineering and Maintenance (Private) Limited breached the lease agreement and left the Embilipitiya factory in 2014, it was leased again to the second lessee, KSPA Embilipitiya Paper Mills (Private) Limited, under the lease agreement dated 09 March 2022, for a period of 30 years on a consideration of Rs. 260 million. As per the agreement, production activities should be commenced within 18 months and during that period, the lessee should pay an annual lease instalment of Rs. 13,000,000 to the company. After the commencement of production activities, an annual lease instalment of 3 percent on the sales income should be paid as per the lease agreement.</p>	<p>Answers have not been given.</p>	<p>The company should take action to recover the due lease rental as per the agreement.</p>

Accordingly, KSPA Embilipitiya Paper Company had commenced production on 18 April 2024. However, the company had not taken action to collect the lease rental as per the agreement.

### 3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) There were 02 main machines used for the production activities of the factory, namely the paper machine and the board machine. When the production activities of the Valaichchenai Paper Factory were resumed in the year 2020, in cases where the board machine was not working and mechanical faults occurred, the method adopted by the management of the company was to remove parts from the paper machine and install them in the board machine for proper functioning. As observed during the audit, 08 main items from the paper machine were installed in the board machine and their value was Rs. 34,433,059. Accordingly, even by 20 February 2025, the date of audit, the paper machine was still inoperative and could not be used for any purpose and it was observed that only the board machine is currently used for paper production.	Answers have not been given.	The underutilized paper machine should be repaired and used for production activities.
(b) In accordance with the lease agreement No. 1037 dated 19 December 2011, the lessee had not paid Rs. 200 million out of the consideration of Rs. 600 million agreed upon in terms of the agreement with the State Resources Management	Answers have not been given.	The company should take action to recover the due lease rental as per the agreement.

Corporation and the National Paper Company Limited and Perth Engineering and Maintenance (Private) Limited for a period of 30 years for the rehabilitation and redevelopment of the Embilipitiya factory. Further, the relevant company had carried out production activities for a short period of time and then the paper machine owned by the Embilipitiya factory had been mortgaged to Seylan Bank for a value of Rs. 418,483,037 and had taken action to leave the factory in the year 2012.

Accordingly, the relevant lease agreement was cancelled on 25 September 2014 by the Ministry of State Resources and Enterprise Development on the instructions of the Attorney General due to non-payment of tax instalments. However, necessary action had not been taken to recover the tax rental of Rs. 42 million due for the three-year period from 19 December 2011 to 25 September 2014, the date of cancellation of the agreement.

Further, the State Resources Management Corporation had not taken any action to recover the loss incurred by the company from the parties who entered into the agreement, representing the National Paper Company, to mortgage the production machinery to Seylan Bank. Furthermore, the State Resources Management Corporation, the lessor party, had not taken any legal action regarding the breach of the agreement due to the cessation of production activities.

by Perth Engineering and Maintenance (Private) Limited, which entered into the agreement.

### **3.3 Human Resource Management**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>As at July 2020, the company had a total of 182 employees, including 08 employees recruited on a permanent basis and 23 employees recruited on a contract basis at the company's Head Office, 13 employees recruited on a contract basis at the Valaichchenai factory, 6 employees recruited on a daily wage basis and 132 employees recruited on an hourly rate, totalling 151 employees. However, despite continuing business activities with this staff for four consecutive years since its re-inception, approval had not been granted by the Department of Management Services for an approved Cadre.</p>	<p>Answers have not been given.</p>	<p>Approval should be obtained from the Department of Management Services for the approved cadre.</p>