

Paranthan Chemicals Company

Opinion

The audit of the financial statements of the Paranthan Chemicals Company for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the comprehensive income statement, statement of changes in equity and the 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 the provisions in National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.1 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.

1.2 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 determines 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 Sub-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.

1.3 Scope of Audit (Auditor's Responsibility 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 audit 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 scepticism 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 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 audit 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 audit 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.

1.4 Financial Statements

1.4.1 Internal Control over the Preparation of Financial Statements

The Company is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

Audit Observation -----	Comments of the Management -----	Recommendation -----
In making special payments such as construction contracts and gratuity special allowance, the Internal Audit had not confirmed whether the relevant payment is accurate.	That Internal Auditor had been briefed on confirming the accuracy of the payment	Before making payments, confirmation should be obtained on the accuracy of payments.

1.4.2 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the relevant Standard	Comments of Management	Recommendation
In terms of Sri Lanka Accounting Standard 8, a revaluation had not been carried out for fully depreciated motor vehicles valued at Rs.22,353,215.	That a revaluation is carried out again for motor vehicles in the year 2019	A revaluation should be carried out speedily and necessary adjustments in accounts should be made accordingly.

1.5 Accounts Receivable and Payable

1.5.1 Receivables

Audit Observation	Comments of Management	Recommendation
Action had not been taken to settle the loan balance of Rs.1,387,445 recoverable from the Water Supply Board since the year 2000.	That letters have been sent for settlement	Necessary action to recover long standing balances, should be taken speedily.

1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of Management	Recommendation
(a) Financial Regulations 570 and 571	Balance of repayable lapsed deposits amounting to Rs.17,930,000 brought forward since the year 2001 had not been taken to the Revenue in terms of Regulations.	That creditors have been notified in writing	Action should be taken to settle deposit balances speedily or to take to the Revenue.
(b) Public Enterprises Circular No.PED/12 of 03	Even though the draft budget should be submitted for the approval of the Board of Directors,	That the draft budget will be submitted 3 months before to	Action should be taken in terms of circular provisions.

June 2003	three months before the	the	Audit
(i) Section 5.2.4	commencement of the financial year, the budget for the year 2018 had been submitted only on 27 December 2017.	Committee, since the year 2019	
(ii) Section 8.2.3	Approval of the Ministry of Finance had not been obtained for fixed deposits amounting to Rs.314,962,683 deposited in the preceding years.	That the Treasury approval had delayed	Relevant approval should be obtained in terms of circulars.
(c) Section 01 of the Public Enterprises Circular No.PED 2015/01 of 25 May 2015	A transport allowance at the rate of Rs.15,000 had been provided to 4 officers with only the approval of the Board of Directors and without the Treasury approval therefor.	That action will be taken in the year 2019 to obtain approval	Action should be taken in terms of circular provisions.

2. Financial Review

2.1 Financial Results

The operations for the year under review resulted in a surplus of Rs.74,263,916 as compared with the corresponding surplus of Rs.99,899,337 for the preceding year, thus observing a decline of Rs.25,635,421 in the financial result. The decrease in sales income and the increase in administration expenditure had mainly attributed therefor.

2.2 Analysis of Tendencies in Main Items of Revenue

Revenue	2017	2018	Variance	Percentage %
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	Rs.	Rs.	Rs.	
Chlorine	273,449,500	267,390,350	6,059,150	2
Caustic Soda Chips	58,697,350	32,510,719	26,186,631	44
Liquid Caustic Soda	-	156,930	156,930	100
Hydrochloric Acid	2,757,480	2,549,196	208,284	7
Bleaching Liquid	1,989,517	20,450	1,969,067	99
Total	336,893,847	302,627,645	34,580,062	10
	=====	=====	=====	=====

Even though the total decrease in main revenue of the year under review was 10 per cent, in the consideration of each chemical separately, a rapid decrease is observed in the sale of chemicals except for Chlorine. The failure in production activities of two chemicals in the Company had resulted therefor.

2.3 Analysis of Ratios

Ratio	2017	2018
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Current Ratio	1:6	1:8
Gross Profit Ratio	51%	48%

The current asset ratio had taken a high value due to the inclusion of short term fixed deposits in the current assets while the decrease in sales revenue had resulted in the decrease in the Gross Profit Ratio.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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The Head Office of the Company is being functioned in a building owned by the Sri Lanka Ports Authority since the year 1955 and agreements had been entered into with the Authority on annual lease basis from the year 2015. An estimated value of Rs.6,350,000 had been shown under buildings in the financial statements. Despite the building not being owned by the Company, expenditure on repairs amounting to Rs.12,509,678 had been incurred in the years 2017 and 2018.	That action will be taken at Ministerial level to obtain the land	Speedy action should be taken to vest the legal ownership.

3.2 Delays in Projects or Capital Works

Audit Observation	Comments of the Management	Recommendation
<p>-----</p> <p><u>Re-commencement of the Paranthan Factory</u></p>	<p>-----</p> <p>That a large investment as well as a technology to suit environmental standards is required for the re-commencement of the factory and that proposals are being made to plan the establishment of an environment friendly industrial zone as per a new proposal of the Government.</p>	<p>-----</p> <p>The management should take necessary speedy action to produce Chlorine.</p>
<p><u>Project on Production of Liquid Caustic Soda</u></p>	<p>Even though a product could be obtained, that the market could not be found due to competition and that the quality suitable for the market is lacking.</p>	<p>The Management should take action to carry out quality products and to find a market for the products.</p>
<p>The production of Chlorine in the Paranthan manufactory had to be discontinued since the year 1986. As such, the supply of Caustic Soda and Chlorine required for the country had depended completely on importation. Even though a land of 227 acres in extent has been reserved for the commencement of the Paranthan factory, it could not be commenced even by the date of Audit. Action had been taken to cultivate commercially valuable plants on a land of 20 acres in extent and sums of Rs.2,552,730 and Rs.433,435 and Rs.631,680 had been spent therefor in the years 2016, 2017 and 2018 respectively.</p>		
<p>Even though the Project on Production of Liquid Caustic Soda had been commenced by spending a sum of Rs.3,279,994 from the year 2016 up to the year 2018, no production and sales whatsoever had been carried out up to now. Moreover, it was observed that the tanks and pipes prepared for production were in an unsuitable condition for production activities, by the date of Audit.</p>		

3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
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(a) Out of 5,000 bags of Caustic Soda chips at a weight of 25 kg per bag purchased in the year 2018 for production and sale of liquid Caustic Soda, 2,087 bags had been stored without being utilized for sale or production even by 31 December 2018. Moreover, the date of expiry for 1,059 bags of Caustic Soda out of the said bags, had been in April 2019.	Even though purchases had been made according to the request of the Marketing Division, sales could not be carried out due to the decrease in prices in the local market.	Management should ensure that purchases are made after specifically identifying the requirement.
(b) In terms of Guideline 3.1.1 of the Procurement Guidelines 2006, when the capacity of the domestic contractors is limited, International Competitive Bidding procedures should be resorted to. However, in the importation of Chlorine, the National Competitive Bidding had been followed and quotations had been called through local agents of foreign companies and carried out these transactions annually through several local agents. A commission of Rs.14,332,650 had been paid in the year 2018 to local agents for importation of Chlorine. The Company had taken action to follow the slice and package approach relating to the quantity to be purchased and to award them to everybody due to submission of the same price by all. As such, the Company had to accept the price submitted by bidders as the purchase price of Chlorine.	That discussions will be held with the Ministry to import chemicals under a bilateral agreement	Management should ensure that International Competitive Bidding is sorted to and the highest bids are obtained and that action is taken to receive maximum benefits.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>Even though the Company had prepared the Action Plan for the year 2018, the progress on achieving the expected targets under the following functions, had not been prepared.</p>	<p>That, instructions have been given in writing to prepare the progress on achievement of expected targets in the Action Plan since the year 2019.</p>	<p>Management should take action to achieve targets and to reach the vision of the Company.</p>
<ul style="list-style-type: none">• Implementation had been planned under plans such as maintaining the price at which Chlorine is supplied to the Water Supply Board and increasing the credit limit, introducing liquid Chlorine for new water projects, issuing Chlorine to industries that use other chemicals and implementing safety programmes for buyers. However, measures such as holding discussions with the Water Supply Board, seeking and briefing new buyers, had not been taken to implement the said plans.	<p>Having to take action under competitive prices for other chemicals and increase in the prices of the Company.</p>	
<ul style="list-style-type: none">• Even though it had been planned to import 4 main chemicals and to produce 2 chemicals, the importation and sale of Chlorine had been 89 per cent of the income, thus observing that the Company depends on it. Moreover, the Company had not been able to reach the vision of being the leader of chemical manufacturing and supplying chemicals for local industries.		