

National Paper Company Limited - 2015/2016

The audit of the financial statements of the of National Paper Company Limited for the year ended 31 March 2016 comprising the statement of financial position as at 31 March 2016 and the statement of profit and loss, statement of changes in equity and 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. My comments and observations which I consider should be tabled in Parliament appear in this report.

1.2 Responsibilities of Management 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.

1.3 Auditors' 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 misstatement 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 these financial statements.

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 Disclaimer of Opinion

My opinion is disclaimed based on the matters described in Paragraph 2.2 of this report

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the effect of the matters described in the Paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. Accordingly, I do not express an opinion on the accompanying financial statements of the Company.

2.2 Comments on the Financial Statements

2.2.1 Non-compliance with Sri Lanka Accounting Standards

Even though the cost of lands and buildings should be identified separately in the financial statements in terms of Paragraph 58 of Sri Lanka Accounting Standard 16, the cost of the lands and buildings totalling Rs. 132,274,693 had not been identified separately.

2.2.2 Accounting Deficiencies

The following observations are made.

- a Although the People's Bank had confirmed that there were no fixed deposit balances during the year under review, a sum of Rs. 2,734,584 had been identified as a negative fixed deposit of the People's Bank under the long-term investments in the financial statements.
- b Despite the confirmation of the company to the effect that no production process took place during the year under review, sums totalling Rs. 14,460,469 had been identified as the production cost in the financial statements
- c Although the tax liability payable to the Inland Revenue Department as at 31 December of the year under review was Rs. 45,549,485 according to the financial statements, it was Rs. 132,302,377 according to the direct confirmation of that department. The management had failed to confirm the difference of Rs. 86,752,892 by reconciliation or any other means.

2.2.3 Lack of Documentary Evidence for Audit

The following observations are made.

- a Sales invoices and bills required to confirm the sums totalling Rs. 6,074,415 identified as the main income, and the purchasing invoices to confirm the purchase cost of Rs. 3,577,369 were not available.
- b Necessary bills and source documents related to the receipt of grants had not been presented to confirm the grants of Rs. 128,150,572 received from the Treasury, Rs. 34,260,504 received from the Ministry and the grant of Rs. 94,442,882 received from the head office.
- c Necessary salary registers, remittance papers and the document related to the calculation of the contribution had not been made available to confirm the accrued contribution for the

Employees' Provident Fund amounting to Rs. 54,475,280 and the contribution of Rs. 3,642,525 for the Employees' Trust Fund.

- d Lease agreements and monthly salary registers required for the confirmation of accrued rent of Rs. 11,082,941 and accrued salaries and wages of Rs. 26,281,819 had not been presented.
- e There were no necessary control accounts, creditors' ledger and the direct balance confirmations to substantiate the trade creditors of Rs. 146,388,237 and the sundry creditors (Scrap Papers) of Rs. 27,566,297.
- f The updated fixed assets register, deeds of properties, motor vehicles registration certificates required to substantiate the property, plant and equipment of Rs. 839,300,644 had not been made available.
- g Stock calculation records and stock registers required to confirm the closing balance of Rs. 121,481,914 had not been presented.
- h Direct balance confirmations and the control accounts required to confirm the trade and other receivables amounting to Rs.389,715,930 had not been furnished.
- i The notification related to the recovery of surcharges and the correspondences with the Ceylon Electricity Board required to substantiate the allocation for the surcharges of Rs. 231,282,413 payable to the Ceylon Electricity Board had not been presented.
- j The lease agreement, relevant journal entries, correspondences with the line ministry and the Ministry of Finance required to confirm the balance of Rs. 467,972,042 payable to the Ose Lanka (Private) Company had not been presented.
- k Loan agreements and the letters related to obtaining loans and the bills were not available in relation to the loans inclusive of the interests of Rs. 161,119,057.
- l There was no consumer deposit register for the value of Rs. 20,078,680.
- m The cash book, bank reconciliations and the balance confirmation letters were not available to confirm the cash and cash equivalent amounting to Rs. 14,487,197.
- n There were no documents related to the calculation of monthly salaries and bonus for the value of Rs. 19,387,340.

3. Financial Review

3.1 Financial Result

The operating results of the year under review was a profit of Rs. 71,610,232 as against the loss of Rs. 123,638,759 for the preceding year. Accordingly, an improvement of Rs. 195,248,991 in the financial results was observed. This improvement was mainly attributed to the decrease in the sales cost by Rs. 226,432,821.

4. Operating Review

4.1 Management Inefficiencies

Due to the failure to settle the arrears of Rs. 472,210,131 payable to the Ceylon Electricity Board as at 09 February 2015, the electricity supply to the Walachchena factory had been temporarily disconnected from that date. No production whatsoever had been carried out in the factory from that date due to the lack of electricity supply.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the annual financial statements and the draft annual reports should be furnished to the Auditor General within 60 days from the expiry of the year of accounts. Nevertheless, the financial statements of the National Paper Corporation Limited pertaining to the year 2015/2016 had been prepared and presented to the Audit on 20 July 2022.

5.2 Tabling Annual Reports in Parliament

The annual report pertaining to the year under review had not been tabled in Parliament even by the date of this report.