

Paranthan Chemicals Company Limited -2020

1. Financial Regulations

1.1 Qualified Opinion

The audit of the financial statements of the Paranthan Chemicals Company Limited (“Company”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 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 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.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified opinion.

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 intend 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 Scope of Audit (Auditor's Responsibility on 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness.
- 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 Internal Control over the Preparation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
Although all the expenses incurred in the production of bleaching liquid and caustic soda liquid and filling of chlorine in to cylinders by the Wagawatta Chlorine Refilling Unit should be included in the cost of production, expenses totalling Rs.2,134,757 had been included in the administrative expenses.	Action will be taken to rectify in the financial year, 2021.	The production cost for the products of the Company must be calculated accurately.

1.5.2 Noncompliance with Sri Lanka Accounting Standards

Non Compliance with the Reference to Particular Standard	Comments of the Management	Recommendation
(a) Although the income is required to be identified in terms of Section 9 of Sri Lanka Financial Reporting Standards (SLFRS) No. 15, it had been disclosed by Note to the Accounting Policies No. 4.1.2 in the financial statements of the year under review that the Company had identified income in accordance with the Sri Lanka Accounting Standards (LKAS) No. 18, which was repealed on 01 January 2018.	This will be rectified in the year 2021.	Income should be identified in accordance with the Financial Reporting Standard and it should be disclosed in the notes to the accounts.
(b) Although financial instruments are required to be classified in accordance with Section 4.1.1 of the Sri Lanka Financial Reporting Standards (SLFRS) No. 09, the Company had disclosed by the Accounting Policy No. 4.4 in the financial statements of the year under review that financial instruments had been classified in accordance with Sri Lanka Accounting Standards (LKAS) No. 39, which had been repealed in 2018.	This will be rectified in the year 2021.	Action should be taken in accordance with the Standard.
(c) Although information, which are not provided elsewhere, but is related to understand them should be provided in the financial statements in accordance with paragraph 112 (c) of Sri Lanka Accounting Standards No. 01, a land in extent of	This will be disclosed in the financial statements of the year 2021.	Action should be taken to disclose in accordance with the Standard.

2 acres in Nagoda Industrial Estate of Kalutara owned by the Ministry of Industry had been obtained on 50 year lease basis to carry on the business of the Company, the details of that land had not been disclosed in the financial statements.

- (d) Although the depreciating value of an asset should be allocated on a systematic basis over its useful life according to paragraph 50 of Sri Lanka Accounting Standard No. 16 and it had been stated according to paragraph 34 that further revaluation is required when the fair value of an asset, which had been revalued differs quantitatively from its carrying value, 8 motor vehicles costed at Rs. 28,378,715 and fully depreciated, but are still being used and 665 items costed at Rs. 6,728,057 had not been revalued.

Although the Valuation Department has been notified several times, they have informed the institution that they are unable to do so due to the current shortage of employees.

A revaluation should be carried out and adjustments required for the accounts should be made accordingly.

1.5.3 Accounting Policies

Audit Observation

Although it was stated that Employee Benefits (Gratuity allowances) had been calculated according to the "Project Unit Credit Method", under the Accounting Policy No. 4.8 of the financial statement of the year under review, the Company had calculated the Gratuity of the Employees according to the Gratuity Formula Method.

Comments of the Management

Action will be taken to calculate the "Project Unit Credit Method" in the financial year, 2021.

Recommendation

The method of calculation should be disclosed.

1.5.4 Accounting Deficiencies

Audit Observation

Although the cost, that can be directly applied to bring the asset operative in the way that is expected by the Management, can be considered as a cost element in accordance with paragraph 16 of Sri Lanka Accounting Standard No. 16, the expenditure amounting to Rs. 1,345,119 incurred during the year for obtaining consultancy services required for the construction activities of Wagawatta Refilling Unit had been written off as an expenditure of the year without recognizing it as an asset. As a result, the profit for the year had been decreased by Rs. 1,345,119.

Comments of the Management

Action will be taken to rectify this expense as an asset in the financial year, 2021.

Recommendation

Expenditure should be accurately accounted.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

	Audit Observation	Comments of the Management	Recommendation
(a)	Action had been taken to recover the loan balances amounting to Rs. 4,579,926 due from 5 institutions that had been closed down or and to eliminate them from the books subsequent to obtaining necessary approvals.	Action will be taken to refer these balances to the Board of Directors for taking a decision in that regard.	Necessary approvals should be obtained and adjustments in the accounts should be made.
(b)	The Institution had not taken action to recover the balances amounting to Rs.5,052,627 that had been older for more than 10 years and indicated in the accounts as receivables from the institutions, which are still in operation.	It has been informed in writing through the Secretary of the Ministry to make arrangements to pay these amounts.	Action should be taken to recover the loan balances.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a surplus amounting to Rs.82,029,740 and the corresponding surplus for the previous year was Rs.73,380,727. Accordingly, an improvement amounting to Rs. 8,649,013 was observed in the financial result. The increase in the sales revenue had been the major reason for this improvement.

2.2 Analysis of Ratios

	2020	2019
Current Assets Ratio	1:8.2 9%	1:8.3 0%
Gross Profit Ratio	50.11 %	47.10 %
Net Profit Ratio	26.75 %	25.55 %

The increase in the sales revenue of the year had been the reason for the increase in net profit ratio.

3. Operational Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
<p>Considering the demand for caustic soda lye, the Project of producing Caustic Soda Liquid was initiated on 30 December 2015 at Nagoda Industrial Estate of Kalutara with the objective of adding value to caustic soda and reaching the market, which is not currently available to Paranthan Chemicals Company Limited and the work of the project had been completed on 25 April 2016. However, the project had been abandoned since caustic soda liquid processor was made of iron and iron and caustic soda liquid reacted with each other and iron had mixed with caustic soda lye and therefore, caustic soda lye could not be sold. Since the Company had functioned without studying that caustic soda flakes mixes with iron, the Company had to incur a loss of Rs. 2,089,000. As this machine had not been used, it was corroded and some parts of the machine had been left in several places of that land and they had decayed and weeds had grown over them. Moreover, the building, where the machine was stored had not been utilized for any purpose and it remained idle.</p>	<p>Caustic Soda Lye Plant was developed as a research and development project. It is a process that involves the development of the process, its modifications, redesigning of certain parts, the replacement of unsuccessful units. Many processes have gone through erroneous learning processes.</p>	<p>Action should be taken to recover the losses incurred from the officers responsible.</p>

3.2 Delays in Projects or Capital Work

Audit Observation	Comments of the Management	Recommendation
<p>Due to the cessation of chlorine production at the Paranthan plant from the year 1986, caustic soda and chlorine requirement of the country had been fully met through imports. It was proposed in the year 2016 to set up a plant for chlorine production in the land in extent of 227 acres located at Paranthan. Even though a feasibility study and an environmental impact assessment were carried out in 2020 by incurring costs amounting to Rs.</p>	<p>An amount of 6.14 billion has been estimated for the implementation of the project. It was expected to obtain approximately Rs. two billion from the General Treasury and the balance amount is expected to be obtained from government banks as loans. A sum of Rs. 02 billion has been requested from the national budgets for the years 2021 and</p>	<p>Necessary action should be taken to start chlorine production activities at the Paranthan plant.</p>

7,611,111 and Rs. 2,116,750 respectively, activities of setting up the plant has not yet been initiated.

2022 and funds have not been allocated to provide any amount from the national budget. Therefore, plans are being designed to enter into a partnership with the private sector.

3.3 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>The approved Cadre of Paranthan Chemicals Company Limited was 70 and the actual staff was 55. Even though the posts such as Deputy General Manager and Auditor included therein had remained vacant since 2019 and the post of Assistant General Manager (Finance) had remained vacant since 2013, the Company had not taken action to fill the relevant posts even up to 30 October 2021.</p>	<p>A number of letters have been sent to the Department of Public Enterprises and the Ministry of Industries seeking approval to recruit for the relevant posts and a special inquiry is being conducted at the Ministry level regarding the post of Assistant General Manager (Finance).</p>	<p>Action should be taken to fill vacancies expeditiously.</p>

4. Accountability and Good Governance

4.1 Tabling of the Annual Report in Parliament

Audit Observation	Comments of the Management	Recommendation
<p>The annual reports for the years from 2015 to 2019 had not been tabled in Parliament.</p>	<p>Action will be taken to table these reports in the future.</p>	<p>Annual reports for each year must be tabled in Parliament.</p>

4.2 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>The progress report for the year under review had not been submitted in accordance with the action plan and 07 projects included in the action plan had not been implemented this year. Although, activities such as setting up a small plant at the land situated in Paranthan to carry out chlorine production activities and activities of Wagawatta chlorine storage complex had been carried out during the year under review, they had not been included in the action plan.</p>	<p>Action will be taken to rectify this situation within the year 2022.</p>	<p>All the activities should be included in the action plan and action should be taken to accomplish the projects included in the action plan.</p>