

Paranthan Chemicals Company Limited - 2021

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Paranthan Chemicals Company Limited (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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 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.

1.3 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:

- 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 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendation
Debt balances of Rs.4,579,926 due from 5 closed institutions and trade debtors and other debtors more than 05 years old due from operating institutions were not taken to recover the balances of Rs.1,413,382 and 2,350,686 respectively.	Department of the Registrar of Companies has notified that 2 closed institutions have been strike off under Section 487(3) of the Companies Act. Accordingly, the board committee has approved to write off these balances from the books and legal action is to be taken against other institutions. The institutions have been informed about the arrears to be received from the operating institutions, but no response has been received so far.	Necessary approvals should be obtained and arrangements should be made to adjust accounts or recover credit balances.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 138,180,995 and the corresponding profit in the preceding year amounted to Rs. 82,029,740 Therefore an improvement amounting to Rs. 56,151,255 of the financial result was observed. The increase in sales revenue of chlorine by Rs.88,877,072 was mainly driven for this growth.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Management had not undertaken to review the useful life of the property plant and equipment already in use which had been fully depreciated at a cost of Rs.255,843,931.	A committee has been appointed by the Motor Transport Department in a letter dated 25 th November 2022 to revalue the fully depreciated vehicles amounting to Rs.34,935,915.	Revaluation should be carried out and necessary adjustments should be made to the accounts.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
The bleaching produced at the Wagawatta refilling plant is transported to the Paranthan Chemicals yard in the Kalutara Nagoda Industrial Estate where it is packed into small bottles and sold. 38,725 liters of bleaching liquid containing 5 percent chlorine and 65,905 liters of bleaching liquid containing 10 percent chlorine were supplied in the year under review, but except for the stock reporting of the bottles of bleaching liquid sold at the Nagoda yard there was no record of the stock received from the wagawaththa yard and the closing stock of the Nagoda yard.	Bleaching stock production takes place in the Wagawatta unit and the quantity required for replenishment is handed over to Nagoda Industrial Estate. As the Goods Receipt Report (GRR) for the stock is created in the Wagawatta, no Goods Receipt Reports will be created again after receipt at Nagoda. Distribution is done under waybills which is an internal communication document.	All records of stock should be maintained.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
The upper floor of the 5250 square feet two-storied office building built on the two-acre land belonging to Paranthan Chemicals in Fullerton Industrial Estate, Kalutara, Nagoda, has 02 rooms suitable for upper management, a laboratory and a conference room, and is currently used as a warehouse for packing empty liquid bottles without any use. Thus, it was discovered that this office building is underutilized.	The company's four officers are employed here. Furthermore, caustic liquid production as well as the bottling and packing of bleaching liquid are carried out in this premise. In this facility, 77.375 metric tons of caustic soda have already been stored, and plans have been made to store and distribute 69 metric tons of hydrochloric acid that will be delivered within the following month. From the office premises, all of these activities are coordinated.	This upper story is an office building and should not be used as a warehouse.

3.4 Delays in projects or Capital work

Audit Issue	Management Comment	Recommendation
The country's demand for caustic soda and chlorine was completely met by imports. In the year 2016, it was proposed to establish a plant for chlorine production on the 227-acre land located in Paranthan, and Rs.6,469,444 were spent for the	The feasibility study for this project was done by C/S EML Consultants Pvt Ltd further, that institution is engaged in a study of its environmental impact. (Environment Impact Assessment). Accordingly, the above study is scheduled to be completed on January	To begin producing chlorine in the Paranthan facility, necessary actions must be done.

feasibility study until 2021 and Rs.4,693,617 for the development of Parathan land and plant cultivation. However, the construction had not yet begun.

15, 2023. Simultaneously, necessary steps are being taken to obtain financial facilities by coordinating with the Treasury as the next steps.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>Only 05 officers are working in 10 approved senior-level posts at Parathan Chemicals Company. Included in those vacancies, both the Assistant General Manager (Finance) post from the year 2013 and the Deputy General Manager position from the year 2019 to 30th October 2022 were unfilled by the Company.</p>	<p>On numerous occasions, Parathan Chemicals has requested recruiting for senior-level approved posts and other posts in the company's approved workforce from the Ministry of Industries and the Department of Public Enterprises. But that hasn't yet received approval.</p>	<p>Vacancies should be filled immediately.</p>

4. Accountability and Good Governance

4.1 Budget control

Audit Issue	Management Comment	Recommendation
<p>During the review of the budgeted and actual income of the reviewed year, the company had lost an income of Rs. 65,983,000 due to the decrease in sales of caustic soda, bleaching solution, hydrochloric acid over the budgeted income.</p>	<p>The fact that the company did not have stocks of hydrochloric acid throughout the year 2021 and the closure of the country due to the coronavirus control reasons in the country during the year 2021 also affected the sales of caustic soda sheets and bleaching liquid. Also, due to the last supply of the old tender and the loss of the new tender at the Lakvijaya plant for bleaching liquid, its income was lost.</p>	<p>Efforts should be made to maintain the income in the budget.</p>