

The audit of financial statements of the National Paper Company Limited for the year ended 31 March 2015 comprising the statement of financial position as at 31 March 2015 and the profit and loss statement, statement of changes in equity and statement of cash flows 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 presented to Parliament appear in this report. I was assisted by a Firm of Chartered Accountants in public practice to carry out this audit. This report is issued in terms of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board's Responsibility for the Financial Statements -----

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility -----

My responsibility is to express an opinion on these financial statements based on my audit conducted in accordance with Sri Lanka Auditing Standards.

1.4 Basis for Disclaimer of Opinion -----

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, profit and loss statement, statement of changes in equity and cash flow statement.

1.5 Going Concern of the Company -----

Even though the financial statements had been prepared on the Going Concern concept by the National Paper Company Limited, the Valaichchenai factory which was owned by the Company as at the date of report, had suspended its operating activities during the year under review and the Embilipitiya factory had been leased out to a private company on 15 November 2011. Moreover, losses amounting to Rs.123 million and Rs.209 million had been reported by the Company for the year ended 31 March 2015 and in the preceding year respectively. Since the net assets of Company had reported a negative net balance of Rs.1,090 million as at 31 March 2015, it was observed in audit that the going concern of Paper Company is uncertain.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the matters described in 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. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on the Financial Statements

2.2.1 Lack of Documentary Evidence for Audit

The following observations are made.

- (a) The financial statements for the year ended 31 March 2014 was audited by another auditor and an adverse opinion thereon had been expressed on 02 February 2017. Adequate and appropriate audit evidence was not possible to be obtained to confirm the accuracy of opening balances of the financial statements.
- (b) Since the facilities to access physically to the premises and relevant records were not provided by the Company, adequate evidence was not available to review the total non-current assets amounting to Rs.38,344,000, total current assets valued at Rs.177,767,000 , and total non-current liabilities amounting to Rs.406,086,000 of the Valaichchenai factory. As such, the balances could not be verified.
- (c) Embilipitiya factory had been leased out to a private company on 15 November 2011 and there were no agreement or any adequate evidence thereon. As such, total non-current assets amounting to Rs.17,886,000, total current assets valued at Rs.11,202,000 , and total non-current liabilities amounting to Rs.483,757,000 of the factory,could not be verified.
- (d) Since the relevant records were not available for the verification of property, plant and equipment, the balance of property, plant and equipment amounting to Rs.33,376,922 shown in the financial statements, could not be verified.
- (e) The stock balance of Rs.15,926,363 could not be verified due to the failure to observe physically the year end stock valuation and non-availability of reports pertaining to quantities and values of stocks.
- (f) Trade and other balances receivable amounting to Rs.257,200,355 and trade and other balances payable totaling Rs.471,307,505 could not be verified due to the lack of direct confirmations of balances and information and records required to confirm the balance through alternative auditing methods.
- (g) Capital reserves amounting to Rs.45,087,534 and balances of foreign grants totaling Rs.41,777,052 could not be verified due to the lack of adequate and appropriate evidence to confirm the balances.

- (h) Since the relevant approvals and documents pertaining to the credit of retained profit were not made available to Audit, the balance of retained profit amounting to Rs.103,258 could not be verified.
- (i) Since acceptable other evidence pertaining to the prevention of direct confirmation of balances, loan agreements and loan balance were not made available to Audit, foreign loan balance amounting to Rs.159,654,648 could not be verified.
- (j) Since the details of gratuities paid during the year under review and the basis of making provision for gratuity during the year were not made available to Audit, payable balance of gratuity amounting to Rs. 100,681,254 could not be verified.
- (k) Income of Rs.74,905,615 and sales cost amounting to Rs. 243,140,251 could not be verified due to the inadequacy of evidence to verify the total income and accuracy of sales cost shown in the financial statements.
- (l) Since the Company has abide by the statutory taxes such as Value Added Tax, Nation Building Tax, Economic Service Charge and Income Tax, audit evidences were not adequate to ensure that the Company has duly paid the aforesaid taxes or provision for such arrears has been made in the financial statements.
- (m) The evidence stated herein was not made available to audit to confirm the expenditures mentioned below.
 - (i) Personal files, summaries of salary registers and relevant approvals for payments to confirm the salaries and wages amounting to Rs.20,705,764.
 - (ii) Remittance sheets and relevant information pertaining to computations and payments for the confirmation of a sum of Rs.528,085 paid to the Employees Trust Fund.
 - (iii) Information pertaining to remittance and computation to confirm the payments totaling Rs. 2,112,340 made to the Employees Provident Fund.
 - (iv) Supporting documents and lease agreements pertaining to the confirmation of a sum of Rs.3,756,229 made in respect of lease rents, rates and other taxes.
 - (v) Approvals for the payment of Rs. 1,440,467 made to employees and relevant registers of engaging employees on contract basis pertaining to the allowances for employees on contract basis.
 - (vi) Approvals, agreements on hiring, and supporting documents to confirm payments in respect of payments amounting to Rs.1,035,000 made for hiring motor vehicles.
 - (vii) Supporting documents to confirm the approvals and payments in respect of sums Rs.2,852,751 and Rs.3,222,458 paid for repairs and maintenance and expenditure on papers disposed respectively.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year ended 31 December 2015 had resulted in a pre-tax net loss of Rs.123,638,759 as compared with the corresponding pre-tax net loss of Rs.209,226,700 for the preceding year, thus indicating a decrease in the net loss by Rs.85,587,941 in the financial result.

3.2 Analytical Financial Review

3.2.1 Material Accounting Ratios

Gross profit ratio and net profit ratio of the year under review and preceding year had been a negative value. Details are given below.

	2015 As a Percentage -----	2014 As a Percentage -----
Gross Profit Ratio	(225)	(235)
Net Profit Ratio	(165)	(271)

3.2.2 Working Capital Management

Current ratio had been deteriorated and it remained unchained at 1:0:31 in the year under review and in the preceding year. The quick ratio had also been deteriorated and it stood at 1:0:22 in the year under review while it was 1:0:21 in the preceding year.

4. Operating Review

4.1 Operating Inefficiencies

(a) Valaichchenai Factory

As the due amount of Rs.472,210,131 payable to the Ceylon Electricity Board as at 09 February 2015 had not been paid, the electricity supply provided to the Valaichchenai Factory had been temporarily disconnected from that date. Due to the non-availability of electricity supply, no manufacturing process had been taken place in the Valaichchenai Factory from that date.

(b) Embilipitiya Factory

According to the lease agreement No.1037 dated 19 December 2011, an agreement for a consideration of Rs.600 million had been entered into for a period of 30 years between the two institutions namely Public Resource Management Company and National Paper Company Limited at No.561/3, ElvitigalaMawatha, Colombo 05 and the Perth Engineering and Maintenance (Pvt) Limited at the business address of No.03/43, Ventnor Avenue, West Perth, Western Australia, for the restoration and re-development of the said factory. Out of the consideration agreed, only Rs.400 million had been paid by the relevant lessee, while the balance had not been paid. The said lessee, who had carried out the manufacturing process for a short period, had discontinued the manufacturing process in the year 2012.

Since the installments of lease were not duly paid, the relevant lease agreement had been cancelled on 25 September 2014 by the Ministry of Public Resource and Enterprise Development on the instructions of the Attorney General.

Accordingly, it was revealed that no manufacturing process is being carried out in this Factory at present and the security guards of the Department of Civil Security who were employed for the safety of assets belonging to the Factory, had also been removed at present by the said Department. According to the audit inspection carried out by Audit on 13 September 2015, it was observed that a stock of solid waste imported from Australia was piled in the Factory and further, the lessee company was a company which provides cleaning services in Australia. Moreover, in restructuring the Embilipitiya Factory during the year 2011, all liabilities owned by the Embilipitiya Factory including the arrears payable to the employees out of the sum of Rs. 400 million received to the Government as per the Cabinet memorandum, should be released. Nevertheless, the court order issued in the year 2011 to pay due gratuity and overtime allowances payable to 04 employees, had not been implemented as yet.

5. Other Matters

- (a) It was not possible to verify a value of Rs.11,188,275 which remained unchanged over several years in respect of 05 lands with an extent of 525 acres belonging to the Embilipitiya Factory.
- (b) Out of the two paper factories owned by the National Paper Company Limited, the Embilipitiya Factory had been leased out to a private company on 15 November 2011 while acceptable accounting records thereon had not been maintained. At present, investigations in this connection are being carried out by the Financial Crimes Investigation Division (Investigation No.FCID/145/15) and the Presidential Commission of Inquiry (Investigation No. PIC 859/2015).
- (c) Proper books and records on property, plant and equipment had not been maintained whereas certain fixed assets could not be found. Moreover, an appropriate methodology to dispose the scrap items, had not been followed by the Company. Further, plant and equipment fully depreciated but still in use had not been revalued. According to the Sri Lanka Accounting Standard 16, review and adjustment of the carrying amount, useful life and depreciation of property, plant and equipment and other assets should be made at the end of each year.

- (d) It was observed that several court cases on technical issues against the Company were pending while provision for statutory payments and contingent liabilities arisen from pending court cases and disclosures thereon had not been made.
- (e) Information on the interest and agreements of Directors regarding the affairs of the Company had not been made available to the predecessor auditor while a Competent Authority for the administration of Company, had been appointed with effect from 02 April 2012.