State Printing Corporation - 2019

1.1 Qualified Opinion

The audit of the financial statements of theState Printing Corporation for the year ended 31 December 2019 comprising the statement of financial positionas at 31 December 2019 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 and Finance Act No. 38 of 1971. 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 financial statements give a true and fair view of the financial position of the Corporationas at 31 December2019, and its financial performance and 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 forthe Audit of the Financial Statementssection of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for myqualified 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 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 Corporation'sability 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 Corporationor to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporationis 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 Corporation.

1.4 Auditor's responsibility in connection with audit of financial statements

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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 skepticism 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 Corporation'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 tothe 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 Corporation 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 documentshave been properly and adequately designed from the point of view of the presentationof information to enable a continuous evaluation of the activities of the Corporation, andwhether such systems, procedures, books, records and other documents are in effectiveoperation;

- Whether the Corporationhas complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;

- Whether the Corporationhas performed according to its powers, functions and duties; and

- Whether the resources of the Corporationhad been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non Compliance with Sri Lanka Accounting Standards

Non compliance with reference to the applicable Standard	Comments of the Management	Recommendation
(a) Although such details as nature of reserves, the reason to maintain them need to be disclosed as per paragraph 79 (b) of Sri Lanka Accounting Standard 01,no such disclosures were made of capital reserves valued at Rs 102,491, General reserves Valued at Rs 1,100,000 and Development reserves valued at Rs 13,901,142.	These reserves were established at the inception of the corporation. Adequate notes had been entered in the final accounts.	Nature and objective of the reserves must be disclosed as per the requirements laid down by the standard.
(b) Although a quantitative reconciliation needs to be prepared explaining the relationship between tax expenses(income) and accounting profit andrelevant tax rates too should be disclosed as per paragraph 81 (C) of Sri Lanka Accounting Standard 12, no such discloses were made in the financial statement.	Income tax computation were not done due to continuous losses incurred by the corporation resulting in a zero tax	Necessary discloses should be made as per the requirements of the standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the management	Recommendation
(a) Although value of raw material purchases of main press and stationary factory according to records of costing section was Rs 614,714,346, it was stated as Rs 622,633,861 in the financial statements. Thus the production cost was overstated by Rs 7,919,515. Further although	The difference was due to corporation's accounting being done manually. Some minor payments and charges related to foreign purchases were identified after some delay by that time they were	Cost reports of costing section should be maintained up to date and if there is a difference it should be reconciled

	according to cost estimates of main press and stationary factory the material consumption cost was stated as Rs 730,639,160 in the financial statements it was stated in the cost records as Rs. 722,757,688. Thus the production cost was over stated by Rs 7,881,472.	consumed and identified a consumption expenses	
(b)	Value added tax totaling Rs 1,034,813 had been adjusted to the raw material purchase account thus increasing the value of the same by that amount.	As it could not be claimed as an input tax from the Inland Revenue Department due to the relevant tax invoice had not been received in 2019 this situation had arisen	Purchase value of 2019 should be corrected
(c)	The local agent commission totaling Rs 4,788,039 due from raw material purchases had not been accounted for.	Due to an oversight it could not be accounted for.Necessary action will be taken to rectify the omission.	The agent commission value must be rectified.
(d)	Detail information pertaining to the deferred tax amount totaling Rs 17,105,398 included in the statement of financial position under noncurrent assets had not been rendered to audit	Action is being taken to update and submit the tax computation register to audit.	Required information should be rendered to audit

1.5.3Accounts receivables

	Audit observation	Comments of the management	Recommendation
(a)	The corporation failed to recover sum of Rs 170,893,188of tradedebtors outstanding for more than 05 years. It represented 39 percent of total debtors as at 31 December of the year under review.	A programme has been initiated to recover the outstanding balances.	Prompt action should be taken to recover the old outstanding balances.
(b)	According to the balance confirmation by the Government Printing Department, sum of Rs 8,324,416 was to be received as at 31 December 2019. However according to financial statements of State Printing Corporation only Rs 4,012,020 was payable as at 31 December 2019.Therefore a difference of Rs 4,312,396 was identified.	The differences were due to a printing job directly procured from the Printing Department. This will be rectified	The corporation must discuss this matter with the Printing Department and action should be taken to correct the financial statements.

(c)	Sum of Rs 9,753,427 was to be received from the National Paper Company and sum of Rs 7,460,675 was to be paid to the same company at the end of the yearunder review.Further outstanding loan balances of Rs 7,989,976 and Rs 5,578,142 respectively exceeding 6 years were included in the above mentioned loan balances. However no action had been taken to settle those loan balances.	No answer had been given	As the National Paper Company has currently commenced its business activities, the corporation should discuss this matter with them and settle the balances.

1.6 Non Compliance with laws, rules, regulations and management decisions

	Reference to laws, rules,regulations and management decisions	Nature of non compliance	Comments of the management	Recommendation
(a)	Paragraph 4.2 of circular No PED 1/2015 dated 25 May 2015 of Public Enterprises Department	As per the circular instructions 17 managers had to be provided with group transport. However managers were paid a total of Rs 3,284,798 in the year under review by paying each manager Rs 17,500 monthly.	There is no possibility to rent out vehicles or buy new vehicles to provide transport facilities. Therefore an allowance was paid	Circular instructions should be adhered to.
(b)	Circular No PED 03/2018 Dated 07 December 2018 of Public Enterprises Department	Although according to circular for payment of bonuses to staff of government owned companies and corporations only Rs 1,716,000 was possible to be paid as bonuses, totaling Rs 22,097,071 was paid as bonuses.	The corporation's chairman had decided to pay the bonus with the concurrence of the line Ministry to motivate Employees.	Circular instructions should be followed

2. Financial Review

2.1 Financial Results

There was a deficit Rs 169,428,397 during the year under review against the previous year'sdeficit of Rs 406,985,154. Thus there was an improvement of Rs 237,556,757 of the financial result. Increase of text book printing income by Rs 690,208,189 was the main reason for the improvement of financial result.

2.2 Ratio analysis

The current ratio declined to 1:0.6 from 1:0.75 during the year under review while the quick ratio improved marginally from 1:0.34 to 1:0.37 Further the gross profit ratio and net profit ratio which were (0.3) percent and (45) percent in the previous year had improved to 17 percent and 11 percent respectively in the year under review

3. Operating review

3.1 Management inefficiencies

Audit observation	Comments of the management	Recommendation
(a) The Educational Publications Department had deducted Rs 69,317,151 from the amount payable to the corporation for printing school text books for the year 2020 due to the corporation's delay in printing and handing over the books. The delay was 02 to 70 days from the agreed days	This situation arose because raw materials had not been received as expected	Raw materials should be procured on time and school text books should be printed and handed over at the agreed dates
(b) Out of total income of Rs 1,593,815,189, 78 percent of Rs 1,248,179,339 was obtained from printing school text books and lotteries which were Rs 979, 237,857 and Rs 268,941,482 respectively. Therefore the corporation had not diversified its income source and depends on two sources of income	Commercial printing works and stationary section had also brought in substantial income for the corporation	As the corporation act also provides necessary legal provision to diversify its income source, the corporation must do the same
(c) Although according to publication plan the corporation had planned to print and sell 63 publications and earn Rs 25,530,000, it had actually earned only Rs2,872,246	Although according to publication plan 63 publication were planned to be printed and sold, the investment necessary to carry out this was postponed due to financial situation of the corporation	It is timely to carry out a diversification of corporation's income. The Corporation's act provides necessary provision for that.

3.2 Human Resource Management

	Audit observation	Comments of the management	Recommendation
(a)	107 officer positions comprising of 05 middle level manager positions, 12 junior level manager positions, 12 assistant officers of which 08 officers in charge of sales outlets and 78 Management assistants (Technical) remain vacant during the year under review.	Action will be taken to fill the vacancies	Since these positions directly affect the corporation's performance , action should be taken to fill them
(b)	Although the corporation planned to hold 15 training programs inclusive of 06 printing related training programs, no training programs had been carried out until 31 December of the year under review.	Training programs had not been carried out due to financial difficulty of the corporation.	As these training programs help raise the efficiency level of the corporation,action should be taken to carry out them.