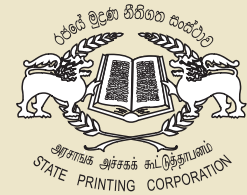




அபிவிருத்தி அமைச்சு
கல்வி அமைச்சு
Ministry of Education

2016 வார्षிக வர்வால் ஆண்டறிக்ை Annual Report



ரேவீ வுருது கீரிதா கண்ட்வால்
அரவாங்க அச்சகக் கூட்டுத்தாபனம்
State Printing Corporation

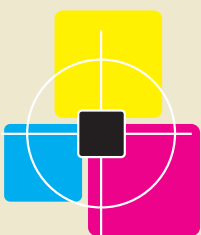


STATEMENT OF ACCOUNTS AND REPORT OF THE AUDITOR GENERAL

State Printing Corporation

2016 ANNUAL REPORT

For the 49th year ended 31st December 2016
01st January - 31st December 2016





Panaluwa
Padukka

Honourable Minister of Education
Ministry of Education
Isurupaya
Battaramulla.

Honourable Sir,

In terms of Section 14 of the Finance Act No. 38 of 1971, I have the honour to forward herewith the following on behalf of the Board of Directors in respect of the year 01st January to 31st December 2016.

1. The Annual Report on the activities of the Corporation
2. The audited Balance Sheet, Working Accounts and the Profit & Loss Account
3. Comments of the Auditor General

Yours faithfully,

Lion Binara Jayawardena
Chairman
State Printing Corporation



Chairman's Message



I consider it a privilege to issue a message as the new Chairman of the State Printing Corporation at this juncture where the institution is preparing for its 50th anniversary upon its inception in 1968.

This institution established under the State Printing Corporation Act (No. 24 of 1968) with the objective of providing adequate school textbooks to the Sri Lankan students without a delay, has gained reputation for printing exercise books and other publications under its direct trade name at present in addition to the school textbooks.

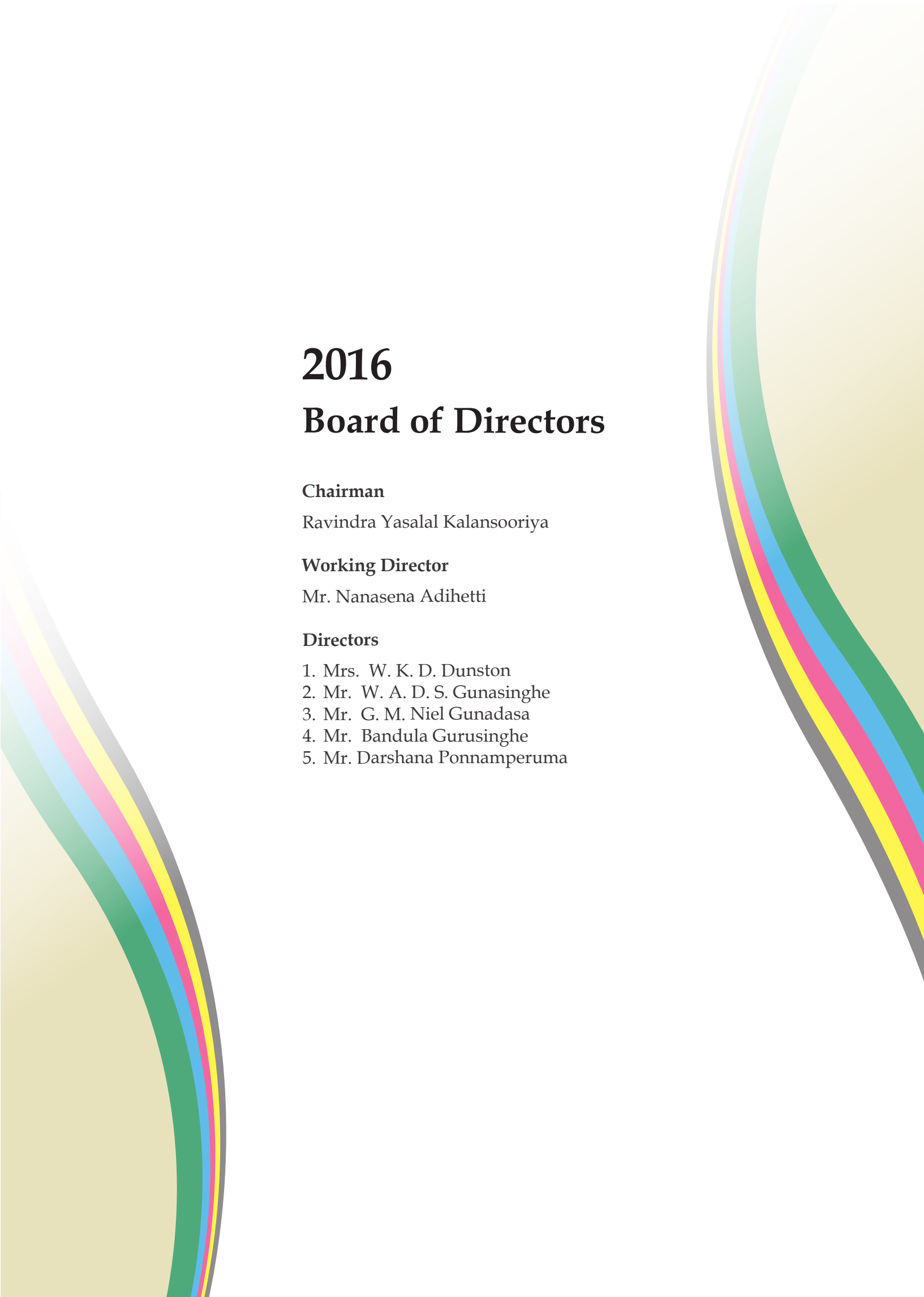
It is my sole intention to take the institution to new heights, which has come under the purview of the Ministry of Education following the recent cabinet reforms, connecting it with the school system with the blessings of His Excellency President Maithripala Sirisena and Prime Minister Hon. Ranil Wickramasinghe as well as the guidance of Minister of Education Hon. Akila Viraj Kariyawasam.

Similarly, reputation earned by the Security printing division and other printing work is immense. As the Chairman I firmly believe that as a public institution committed to social welfare, developing our reputation and strengthening public finance while earning profit should be priorities in the years to come.

Furthermore, I ardently believe it is essential to eradicate corruption and inefficiency from the institution to ensure the welfare of the employees. Therefore, I look forward to the cooperation of all employees in this regard as well as in regaining our position as the leading printer of Asia to the State Printing Corporation.

I wish you a better tomorrow!

Lion Binara Jayawardena
Chairman
State Printing Corporation



2016

Board of Directors

Chairman

Ravindra Yasalal Kalansooriya

Working Director

Mr. Nanasena Adihetti

Directors

1. Mrs. W. K. D. Dunston
2. Mr. W. A. D. S. Gunasinghe
3. Mr. G. M. Niel Gunadasa
4. Mr. Bandula Gurusinghe
5. Mr. Darshana Ponnampereuma

2016

Executive Officers

General Manager

Mr. R. M. N. Monarawila

Finance Manager

Mr. N. D. Priyankara Kumara

Works Manager

Mr. S. T. Karunaratne

Supplies Manager

Mr. E. V. K. Keerthiratne

Manager (Admin. & Human Resources Development)

Mr. R. M. U. D. Bandara

Marketing Manager

Mr. M. T. J. Perera

Deputy Works Manager

Mr. D. M. M. B. Dissanayake

Deputy Works Manager

Mr. T. M. R. N. Tennekoon

Deputy Finance Manager

Mr. K. H. Thilakaratne

Manager (Stationery Factory)

Mr. L. T. Premasiri

Accountant

Mr. M. R. P. Jayawardena

Accountant

Mr. W. L. Deniyage

Internal Auditor

Mr. M. S. S. Mohotti

Asst. Manager Works (Estimates)

Mr. K. D. T. Chandrasiri

Asst. Manager Works (Security Printing)

Mr. M. A. Kothalawala

Asst. Manager Works (Process)

Mr. S. D. Kumarasinghe

Asst. Manager Works (Binding)

Mr. M. A. Shantha Kumara

Asst. Manager Works (Litho)

Mr. P. K. T. Mahinda

Asst. Manager (Sales)

Mr. H. R. Gunasekera

Asst. Manager (Security)

Mr. W. W. M. Arachchige

Asst. Manager (Admin. & HRD)

Mr. K. H. B. Sajeewa

Asst. Manager (Legal/Secretary to the Board)

Mrs. A. L. R. Madhukani

Asst. Manager (Publication)

Mr. Madhuranga C. Nuwanpriya

Asst. Manager (Supplies)

Mr. U. Anil Jayakantha



2016

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of the State Printing Corporation has pleasure in presenting its 49th Report covering the activities of the Corporation for the year ended 31st December 2016, in terms of Section 14 of the Finance Act No. 38 of 1971.

12 Board Meetings were held during the year under review.

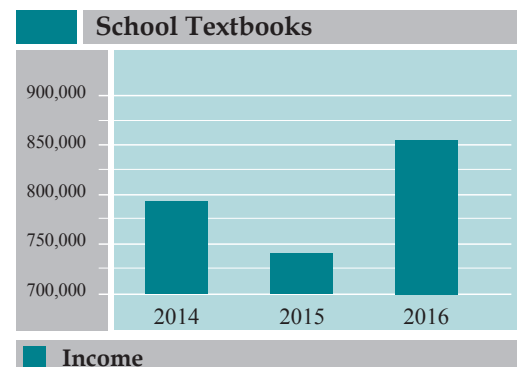
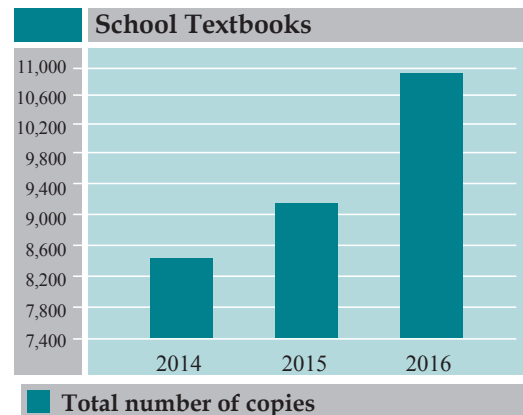
1. Production

1.1 School Textbooks

1.1.1 Printing of School Textbooks

The Corporation which has been incorporated with the basic objective of printing of school textbooks, has diverted its activities to other production areas with the introduction of open economy. Accordingly, Corporation had to compete in tenders to obtain orders from Educational Publications Department. But the year under review too, Cabinet approval has been taken to award 10.98 million textbooks to State Printing Corporation by Educational Publications Department. As a result of that, the Corporation earned an income of Rs. 855,865 million. Income from printing of School Textbooks and number of copies printed during the year under review compared to year 2014 and 2015 are as follows:

School Textbooks	2014 ('000)	2015 ('000)	2016 ('000)
No. of copies	8,406	9,110	10,984
Income - Rs.	789,897	735,111	855,865



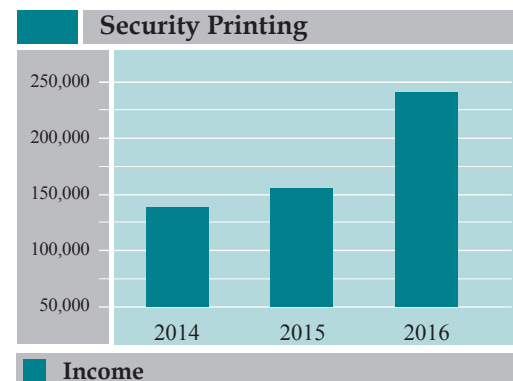
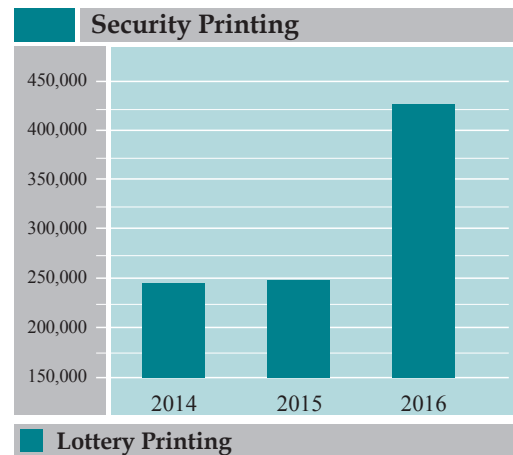
1.2 Other Printing Works

Security Printing Works (such as Lottery Tickets, 'Ridee Rekha' Certificates, Post Office Labels, Dollar Tickets, Airport Super Draw etc.), Dahampasal Books and other printing works of Govt. Institutions were carried out during the year under review. In addition to this printing of Diaries and Calendars of various printing works of private sector institutions were fulfilled. Some of the special printing works completed and supplied by the Corporation are as follows:

1.2.1 Security Printing

Printing of 'Mahajana Sampatha' Lottery tickets for National Lotteries Board has been carried out for the last 42 years. It has been fulfilled in this year, as well. In addition to that, 'Power Lotto', 'Niroga' was also printed. 429 million Lottery tickets were printed in 2016, completing all the orders received. Accordingly, Rs. 245 million income was earned during the year under review. Income from Lottery printing and number of tickets are given below:

Lottery Printing	2014 ('000)	2015 ('000)	2016 ('000)
No. of copies	244,655	249,918	428,902
Income - Rs.	137,007	152,060	245,060



1.2.2. Special Printing Works

Printing orders were obtained from Ministries, Government Departments, as well as from private sector. Special printing works, included the following jobs too.

1. Annual Reports of Various Institutions
2. Various printing jobs of State Pharmaceuticals Corporation
3. University Certificates
4. National Zoological Gardens - Tickets & Leaflets
5. Cinema Tickets
6. Printing jobs of E. P. F.
7. National Savings Bank - Printing jobs of National Savings Bank, including 'Ridee Rekha' Certificates
8. Printing of Answer Papers for Examinations Department.
9. Printing of Dahampasal Books
10. Printing of Wayamba P.C. Exam Papers

During the year under review the Corporation earned Rs. 160 million through other printing jobs.

1.3 Manufacturing of Exercise Books and Other Stationery

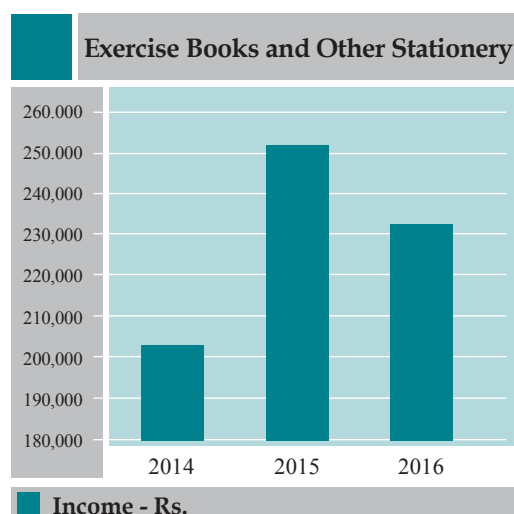
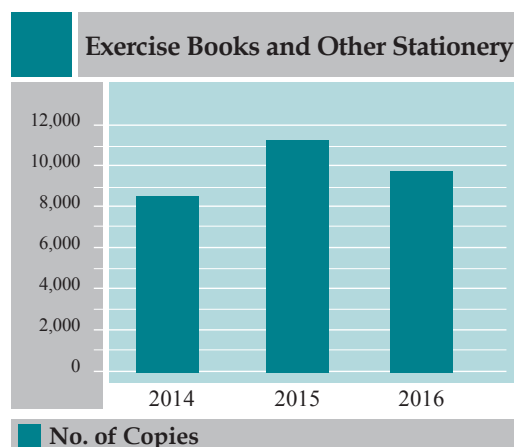
Production in the year under review and comparative figures for 2013 and 2014 are as follows:

Exercise Books & Other Stationery	2014 (‘000)	2015 (‘000)	2016 (‘000)
No. of copies	8,615	11,147	9,869
Income - Rs.	204,210	251,600	233,973

We could not achieve the target given for 2016 because Writing Paper for Exercise Books was not supplied properly and Exercise covers were not printed.

Targer of year 2016 : 12,650 million
(Value - Rs. 305,426 million)

All product were introduced to the market with attractive laminated covers and a new outlook.



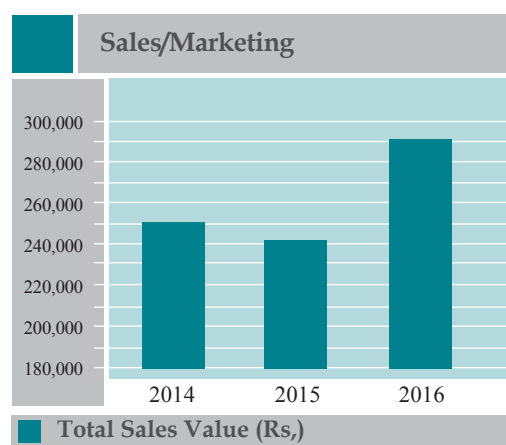
02. Sales/Marketing

It has reported an increase in overall sales revenue to the value of Rs. 49,481,432.00 (i.e. 20.4% growth) over the previous year.

Year	2014 Rs.	2015 Rs.	2016 Rs.
Total Sales Value (Rs.)	250,459,494.00	242,031,775.00	291,513,207

The all three categories that are namely sale of exercise books, sale of publications and sale of other stationery have contributed to the above revenue growth reported in 2016 against 2015.

The magnitude of reported growth in sales revenue in 2016 would have been greater if the supplies of exercise books and other stationery items were prompt and sufficient enough.



Publications

We had been able to recruit a Publication Manager after a several years and we strive to formulate plants to boost the activities and sales revenue of Publications in the future.

03. Fixed Assets

Fixed Assets of the Corporation stood at Rs. 423,154,675/= at the end of year 2016. The written down value of same was Rs.147,377,105/=. This was compared to the previous year (i.e. 2015) figures Rs. 397,197,548/= and written down value of Rs. 99,679,966/- respectively.

Fixed Assets	2014 Rs. ('000)	2015 Rs. ('000)	2016 Rs. ('000)
Opening Value (at cost)	365,512	375,101	397,198
Written down Value	93,143	99,680	147,377

04. Tax Liability

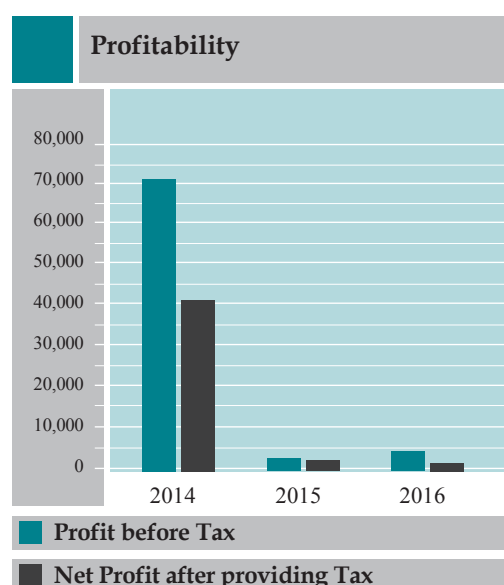
Provisions amounting to Rs. 3,679,857/= as income tax have been made in Final Accounts of year 2016 for the year of Assessment 2016/2017 by the Corporation.

Tax Liability	2014 Rs. ('000)	2015 Rs. ('000)	2016 Rs. ('000)
Income tax	27,260	821	2,240
Deemed Dividend Tax	2,363	-	1,440
Total	29,623	821	3,680

05. Profitability

The Corporation earned a profit before tax of Rs. 4,623,576/= during the year 2016, as compared to Rs. 2,932,478/= in 2015.

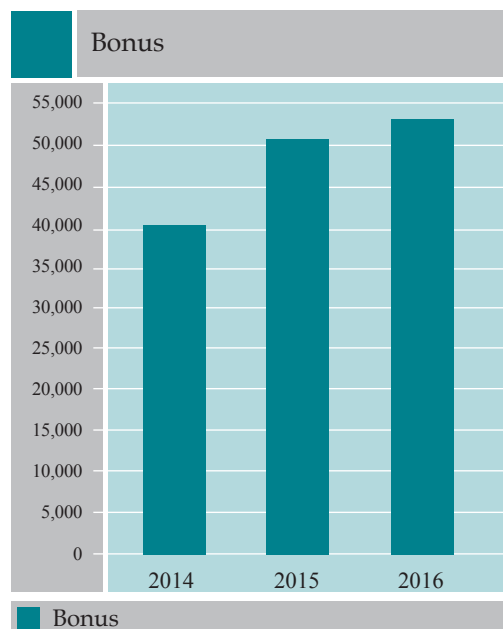
Profitability	2014 Rs. ('000)	2015 Rs. ('000)	2016 Rs. ('000)
Profit before Tax	71,154	2,932	4,624
Net Profit after providing Tax	41,531	2,111	944



06. Bonus

Annual Bonus equivalent to two months salary was paid to the eligible employees amounting to Rs. 53,029,119/= It is 5% growth compared to year 2015.

Bonus	2014 ('000)	2015 ('000)	2016 ('000)
Rs.	40,724	50,660	53,029



07. Welfare

Following welfare facilities were provided to the employees in this year as in the previous year. The Corporation has spent Rs. 127.8 Million on this.

	Welfare	2014 Rs.('000)	2015 Rs.('000)	2016 Rs.('000)
01.	Transport facilities for employees	3,274	2,595	4,877
02.	Incentive payments for employees	5,804	5,904	6,075
03.	Medical facilities	4,856	6,018	9,655
04.	Various welfare facilities	27,016	24,703	25,246
05.	Workmen Compensation Insurance	216	228	-
06.	Gift Vouchers of Stationery for the Employees	1,146	1,251	1,646
07.	Bonus for Employees	40,724	50,660	53,029
08.	Reimbursement of Housing Loan interest of Employees	4,935	4,938	4,274
09.	Payment of un-availed leave of Employees	13,051	16,939	16,409
10.	Special Incentive	3,408	6,700	6,630
	Total	104,430	119,891	127,841

08. Personnel

The entire work force of the Corporation during the year under review is 752 of which the breakdown is given below.

Number of Employees	2016
Office	146
Main Factory	374
Stationery factory	47
Security Section	40
Sales Outlets	41
Casual and Contract Employees	102
Days Pay Labourers	02
Total	752

Following Executives left the Corporation during the year under review.

	Name/Post	Date
1.	Mr. K. H. Thilakarathne Deputy Finance Manager	2016. 11. 07

Following Executives newly recruited to the corporation during the year.

	Name/Post	Date
1.	Mr. Madhuranga C. Nuwanpriya Asst. Manager (Publication)	2016. 04. 04
2.	Mr. U. Anil Jayakantha Asst. Manager (Supplies)	2016. 04. 04
3.	Mrs. A. L. Ruwandi Madhukani Asst. Manager (Legal/Secretary to the Board)	2016. 04. 04
4.	Mr. M. S. S. Mohotti Internal Auditor	2016. 05. 24

Acknowledgement

The Chairman and the Board of Directors wish to thank all employees of the Corporation for extending their loyalty and wholehearted co-operation towards running the Corporation successfully. The Chairman and the Board of Directors express their sincere thank to the Honourable Minister of Education who guided and supported for a successful programme and to the Secretary to the Ministry and staff for their continuous support in achieving the programme. The management is confident that the same co-operation will be extended by the employees during the coming years, as well.

Lion Binara Jayawardena
Chairman



2016 STATE PRINTING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31ST DECEMBER 2016

1. Corporate Information

1.1 General

State Printing Corporation was incorporated in 1968, under the Act of parliament No. 24 of 1968 and the management and control of the Corporation is vested to the Board of Directors. It is located at Panaluwa in Padukka.

1.2 Principal Activities and Nature of Operations

The Corporation's principal activities are printing of school textbooks, manufacturing of exercise books and other printing works.

2. Basis of Preparation

The statement of financial position, statement of comprehensive income, changes in fund and cash flows, together with accounting policies and notes have been prepared in accordance with LKAS and SLFRS and in compliance with finance Act No.38 of 1971.

2.1 Basis of Measurement

The financial statements have been prepared on an accrual basis and under the historical cost. The financial statements are presented in Sri Lankan Rupees.

2.2 Going concern

The Board of Directors have made an assessment of the Corporation's ability to continue as a concern and they do not intend either to liquidate or to cease operations.

3. Summary of Significant Accounting Policies

3.1 Property, Plant and Equipment

Property, Plant and Equipment are stated at cost net of accumulated depreciation. Composition of assets fully depreciated but being used continuously operating activities is as follows;

Asset Category	Total Cost (Rs.)	Fully depreciated assest value (Rs.)	Fully depreciated assets value (Rs.) assets value as a % of total assets value
Buildings	38,020,440.00	6,683,778.00	18%
Plants & Machinery	242,273,033.00	131,150,576.00	54%
Furniture & Fittings	4,476,547.00	3,519,360.00	79%
Motor & Other Vehicles	57,083,428.00	1,104,829.00	2%
Office Equipment	35,577,032.00	11,180,168.00	31%
Electrical Re-installations	2,572,951.00	2,572,951.00	100%
Computer & Accessories	40,307,456.00	27,551,031.00	68%

Assignment of revaluation of above categorized assets has been given to Western Central Region of Valuation Department. They perform this assignment under file No. CV/CA/SPC/ID/02 and revaluation of motor vehicle has been finalized at present.

Since the report on revaluation of motor vehicles had been received from Valuation Departmet necessary accounting entries were made in the books of accounts.

3.1.1 Depreciation

Depreciation is calculated on straight line basis over the estimated useful lives of all Property, Plant and Equipment.

The estimated useful lives for the current and comparative years are as follows;

Buildings	40 years
Plant & Machinery	13.33 years
Motor & Other Vehicles	4 years
Furniture & Fittings	10 years
Office Equipments	10 years
Computers & Accessories	3 years
Factory Tools & Types	4 years

3.2 Inventories

Inventories are valued at the lower of cost and net realizable value.

3.3 Taxation

Taxation is based on liability method and compiled with the Inland Revenue Act No. 10 of 2006.

3.4 Cash & Cash Equivalents

4. Financial Instruments Initial Recognition and Subsequent Measurement

4.1 Financial Assets

4.1.1 Trade Receivables

Trade Receivables are shown in the Finance Statements at their Fair Value.

4.2 Financial Liabilities

4.2.1 Mortgage of Property

All the banking facilities including bank overdraft, short term loans letters of credit and bank guarantees obtained from People's Bank Corporate Banking Division, against property mortgage bonds covering Land & Building and Fixed Machinery under Mortgage Bonds No M.B. - 979/3063/3243/1147/422/5789 from time to time.

4.2.2 Contingent Liability

There is a case No. CA/WRIT/288/12 at Colombo Court of appeal filed by ex-employee of Corporation.

5. Retirement Benefit Obligations

The Corporation is liable to pay Gratuity in terms of the payment of Gratuity Act No. 12 of 1983. Payment of Gratuity was made without any arrears where as no separate fund has been built up equalant to the provision as at 31. 12. 2016.

6. Income and Expenses

6.1 Revenue Recognition

All Revenues are recognized on an accrual basis.

Interest income

10% interest is charged for the loans granted to the Corporation employees.

6.2 Expenses

All expenditures incurred in the running of the business have been charged to income in arriving the profit for the year.

6.3 Borrowing costs

All borrowing costs are recognized as expenses in the period in which they are incurred except borrowing cost incurred to obtain machinery has been capitalized up to level of performance from the respective machines.

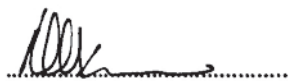
STATE PRINTING CORPORATION

Statements of Financial Position

As at 31st December - 2016

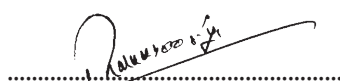
	Note No.	2016 Rs.	2015 Rs.
ASSETS			
Non - Current assets			
Property, Plant and Equipment	15	147,377,105	99,679,966
		147,377,105	99,679,966
Current Assets:			
Inventories	16	248,672,365	359,962,298
Trade Receivables	17	703,301,234	656,995,640
Other Receivables	18	212,689,463	183,534,351
Pre Payments		263,539	263,396
Cash & Cash Equivalents	19	39,830,161	33,542,417
Total Current Assets		1,204,756,762	1,234,298,102
Total Assets		1,352,133,867	1,333,978,068
EQUITY & LIABILITIES			
Issued Capital		15,000,000	15,000,000
Reserves		15,003,633	15,003,633
Retained Earnings	239,737,480		312,036,107
Add: Revaluation Profit	36,015,363	275,752,843	-
Total Equity		305,756,476	342,039,740
Non Current Liabilities			
Retirement Benefit Obligation		185,196,613	183,734,742
Total non Current Liabilities		185,196,613	183,734,742
Current Liabilities			
Trade Payables	20	211,576,342	253,548,518
Other Payables	21	44,761,093	36,594,068
Interest Bearing Borrowings		569,351,346	469,813,626
Bank Overdraft		35,491,997	48,247,374
Total Current Liabilities		861,180,778	808,203,586
Total Equity & Liabilities		1,352,133,867	1,333,978,068

I certify that these financial statements of the Corporation comply with the requirements of the Finance Act No. 38 of 1971.

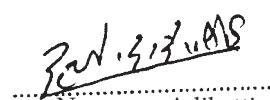


N. D. Priyankara Kumara
Finance Manager

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved by the Board of Directors and signed on their behalf. The accounting policies on pages 113 to 115 and notes on pages 117, 118 and 122 to 124 form an integral part of these financial statements.



Ravindra Yasalal Kalansooriya
Chairman/Director



Nanasena Adihetti
Working Director

STATE PRINTING CORPORATION

Notes to the Financial Position

As at 31st December - 2016

		2016 Rs.	2015 Rs.
16. INVENTORIES			
Raw materials		126,214,025	201,427,934
Consumable		5,895,747	4,361,638
Spare parts		39,183,613	38,664,242
Hardware		1,318,179	1,615,946
Finished goods		40,148,418	74,921,195
Work in progress		35,912,383	38,971,343
		248,672,365	359,962,298
		2016 Rs.	2015 Rs.
17. TRADE RECEIVABLES			
Trade debtors		727,385,717	673,119,568
Less- Provision for bad debt	21,216,887	-	(16,827,989)
Provision for EPD Quality Loss/Penalty	3,571,658	(24,788,545)	-
Other debtors		704,061	704,061
		703,301,233	656,995,640
		2016 Rs.	2015 Rs.
18. OTHER RECEIVABLES			
Staff Loan and Advances (Note 18.1)		21,242,423	18,533,893
Deposits & Receivables (Note 18.2)		6,947,069	2,940,778
Sales Control Accounts		0	1,359
Bank Loan - Margin A/C		184,499,971	162,058,321
		212,689,463	183,534,351
		2016 Rs.	2015 Rs.
18.1 STAFF LOAN AND ADVANCES			
Distress loans		18,321,617	14,294,108
Festival advance		2,254,000	2,236,000
Staff salary advances		63,372	83,645
Creditors advance A/C		603,434	1,920,140
		21,242,423	18,533,893
		2016 Rs.	2015 Rs.
18.2 DEPOSITS & RECEIVABLES			
Deposits receivable		6,571,772	2,406,142
Add. other receivables		375,296	534,636
		6,947,069	2,940,778
		2016 Rs.	2015 Rs.
19. CASH & CASH EQUIVALENTS			
Cash at Bank		36,275,656	26,669,359
Cash in Transit		3,511,060	6,774,493
Cash in Hand		43,445	98,565
		39,830,161	33,542,417

For the purpose of statement of Cash Flow , Cash & Cash Equivalents comprise the following

	2016	2015
	Rs.	Rs.
Cash at Bank	36,275,656	26,669,359
Cash in Transit	3,511,060	6,774,492
Cash in Hand	43,445	98,565
	39,830,161	33,542,416
Bank Overdrafts	(35,491,997)	(48,247,374)
	4,338,164	(14,704,958)
	2016	2015
	Rs.	Rs.
20. TRADE PAYABLES		
Trade creditors	80,124,336	53,840,285
Other creditors	1,277,105	1,076,244
Department of Inland Revenue	129,975,402	198,618,612
Sales advance	199,500	13,377
	211,576,342	253,548,518
	2016	2015
	Rs.	Rs.
21. OTHER PAYABLES		
Accrued Expenses	42,982,314	35,878,568
Deposit Payable	1,778,779	715,500
	44,761,093	36,594,068

STATE PRINTING CORPORATION

Statement of Cash Flows

As at 31st December - 2016

	2016 Rs.	2015 Rs.
Cash Flows from Operating Activities	4,623,576	2,932,478
Net Profit / (Loss) before taxation		
Adjustment for:		
Depreciation on Fixed Assests	23,381,899	18,817,930
Sales of Non Current Assets	(1,618,423)	
Prior year adjustments	(38,327,278)	63,950,712
Finance Expenses	58,130,262	51,637,119
Gratuity provision made during the year	16,493,353	42,083,872
Operating Profit before Working Capital Changes	62,683,389	179,422,111
Changes in items of Working Capital		
(Increase)/ Decrease in Inventories	111,289,934	14,783,561
(Increase)/ Decrease in Trade and other receivables	(46,305,593)	132,938,831
(Increase)/ Decrease in Other Receivable	(29,155,112)	(17,958,767)
Increase / (Decrease) in Current Liabilities	(33,805,151)	(80,341,095)
Cash generated from operations	64,707,467	228,844,641
Tax paid	(25,000,000)	(100,805,045)
Employee Retirement Benefit paid	(15,031,482)	(9,736,539)
Cash Flows / (Used in) from Operating Activities	24,675,985	118,303,057
Cash Flows From Investing Activities		
Proceeds from sales of PPE	1,875,319	
Purchasing of PPE	(36,160,264)	(24,935,984)
Net cash flows from Investing Activities	(34,284,945)	(24,935,984)
Cash Flows from Financing Activities		
Proceeds received / paid for borrowings	86,782,343	(25,156,591)
Interest Paid	(58,130,262)	(51,637,119)
Net cash flows from Financing Activities	28,652,081	(76,793,710)
Net Increase/(Decrease) in Cash & Cash Equivalents	19,043,121	16,573,363
Cash & Cash Equivalents at the beginning of the period	(14,704,957)	(31,278,320)
Cash & Cash Equivalents at the end of the period (Note 19)	4,338,164	(14,704,957)

STATE PRINTING CORPORATION
Statement of Changes Equity
For the year ended 31st December - 2016

	Issued Capital	Capital Reserve	General Reserve	Development Reserve	Retained Earnings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balances as at 01st January 2015	15,000,000	102,491	1,000,000	13,901,142	321,839,104	351,842,737
Prior Year Adjustment	-	-	-	-	(11,914,381)	(11,914,381)
Profit / (Loss) for the year	-	-	-	-	2,111,384	2,111,384
Balance as at 31st December 2015	15,000,000	102,491	1,000,000	13,901,142	312,036,107	342,039,740
Balance as at 01st January 2016	15,000,000	102,491	1,000,000	13,901,142	312,036,107	342,039,740
Prior Year Adjustment	-	-	-	-	(73,242,347)	(73,242,347)
Profit / (Loss) for the year (after taxation)	-	-	-	-	943,720	943,720
Revaluation Profit					239,737,480	269,741,113
					36,015,363	36,015,363
Balance as at 31st December 2016	15,000,000	102,491	1,000,000	13,901,142	275,752,843	305,756,476

STATE PRINTING CORPORATION

Comprehensive Income Statement

For the year ended 31st December - 2016

	Notes	2016 Rs.	2015 Rs.
Revenue	7	1,477,236,807	1,300,518,508
Cost of sales	8	(1,071,664,118)	(919,270,372)
Gross Surplus		405,572,689	381,248,136
Other operating income	9	23,010,408	25,810,856
Distribution expenses	10	(29,399,000)	(20,637,877)
Administrative expenses	11	(218,536,434)	(221,422,756)
Other operating expenses	12	(120,412,881)	(113,405,494)
Operating Profit		60,234,782	51,592,865
Finance Income		2,519,057	2,976,732
Finance Expenses	13	(58,130,262)	(51,637,119)
Surplus for the year before tax		4,623,577	2,932,478
Income Tax	14	(3,679,857)	(821,094)
Surplus for the year after tax		943,720	2,111,384

Statements of Comprehensive Income for the Year Ended 31st December - 2016

	2016 Rs.	2015 Rs.
Profit for the Year (After Tax)	943,720	2,111,384
Other Comprehensive Income	-	-
Total Comprehensive Income for the Year	943,720	2,111,384

STATE PRINTING CORPORATION

Notes to the Financial Statements

For the year Ended 31st December - 2016

	2016 Rs.	2015 Rs.
07. REVENUE/ TURNOVER		
Income from Stationery Factory	264,480,379	226,772,430
Income from Main Press		
Textbooks	867,581,331	776,607,507
Job Works	318,142,269	281,879,226
Publications	1,120,589	284,071
Income from Other Sales	25,912,239	14,975,274
	1,477,236,807	1,300,518,508
08. COST OF SALES		
Main Press		
Raw materials consumed	461,837,298	405,558,049
Direct labour	220,666,050	193,528,470
Direct factory expenses	49,955,422	43,374,471
Indirect factory expenses	67,626,131	56,591,381
Other expenses/Stock Adjustment	31,749,449	30,289,749
Late Charges & Penalty EPD	3,571,658	-
	835,406,008	729,342,120
Stationery factory		
Raw materials consumed	138,553,147	154,175,405
Direct labour	31,923,235	29,313,230
Direct factory expenses	3,080,806	3,467,847
Indirect factory expenses	2,141,781	2,144,242
Other expenses/Stock Adjustment	42,371,400	(14,205,944)
	218,070,369	174,894,780
Cost of Publication unit	1,104,768	393,071
Cost of Other Sales unit	17,082,973	14,640,401
Total cost of sales	1,071,664,118	919,270,372
09. OTHER OPERATING INCOME		
Sundry Income	20,652,638	21,834,295
Tender Deposit & Registrations	721,348	599,898
Over Provision of Bad Debets	-	3,376,663
Profit of Disposal M/V, P&M & Types	1,618,422	-
Income from Canteen	18,000	-
	23,010,408	25,810,856

	2016 Rs.	2015 Rs.
10. DISTRIBUTION EXPENSES		
Nation Building Tax	19,079,461	15,728,306
Upkeep of Motor Vehicles	4,056,789	3,270,284
Advertisement	868,485	841,008
Sales Promotion	802,361	417,380
Provision for Bad Debts	4,389,122	-
Maint. of Outlet	79,183	134,391
Debtor Collection Commission	123,599	246,508
	29,399,000	20,637,877

	2016 Rs.	2015 Rs.
11. ESTABLISHMENT & ADMINISTRATION EXPENSES		
Rent	2,299,533	2,715,898
Upkeep of land & buildings	1,600,155	1,035,120
Electricity	275,945	167,242
Maintenance of office equipment	857,686	310,947
Depreciation - Office equipment	2,264,181	1,975,002
- Furniture & Fittings	91,920	86,863
- Computer software	3,707,011	2,378,768
- Motor cycles	33,188	34,507
Rates	120,120	26,623
Water Tax	55,523	38,363
Salaries & Wages	132,871,950	124,994,160
Overtime of staff	9,934,301	7,052,677
Employees' provident fund	17,117,438	16,227,899
Employees' trust fund	4,279,362	4,056,979
Incentive payments	2,407,500	2,392,750
Chairman's emolument	960,000	812,065
Working Director's emolument	780,000	510,919
Board Director's fees	372,300	213,100
Postage	286,443	340,305
Telephone	1,401,580	1,239,368
Printing & Stationery	6,970,620	3,916,882
Press Notices & Publication	849,966	92,170
Travelling & subsistence	1,752,656	1,393,337
Newspapers and periodicals	86,280	89,020
Rent - Motor Vehicle	967,138	443,960
Foreign Travelling / Staff training (Foreign)	474,846	672,559
General office expenses	284,418	355,357
Audit fees	500,000	-
Miscellaneous expenses	350,939	102,612
Legal & Consultancy	683,157	320,719
Entertainment	624,100	256,266
Gratuity Expenses	16,493,353	42,083,872
Staff training	490,905	242,100
Audit & Management Committee Fees	208,215	133,000
Internet / E-mail	201,743	80,287
Procurement Committee Fees	485,450	419,000
Upkeep of Motor vehicles 25%	4,056,789	3,270,284
Accommodation	72,030	13,780
Board meeting expenses	64,483	30,667

Membership fees	70,800	36,100
Donation	775,032	335,854
Computer Repair & Maintenance Charges	179,050	441,450
Cash Transport Charges	73,828	69,675
Cash escort charges	9,952	14,250
Registration Charges as a Supplier	94,551	-
	218,536,434	221,422,756
	2016	2015
	Rs.	Rs.
12. OTHER OPERATING EXPENSES		
Welfare to staff	25,177,725	24,702,769
Employees medical scheme	9,654,775	6,017,920
Housing Loan interest	4,273,617	4,938,620
Bonus to staff	53,029,119	50,660,006
Special Incentive Payment	6,630,000	6,700,000
Staff transport	4,877,244	2,595,233
Leave Encashment	16,408,882	16,937,575
Staff Awards	68,000	
Payee Tax	293,519	853,371
	120,412,881	113,405,494
	2016	2015
	Rs.	Rs.
13. FINANCE EXPENSES		
Bank Guarantee & Other bank charges	9,702,557	6,650,376
Bank Overdraft interest	2,217,657	1,429,507
Bank Loan interest - Short Term	46,210,048	43,557,236
Bank Loan interest - Long Term	-	
	58,130,262	51,637,119
	2016	2015
	Rs.	Rs.
14. INCOME TAX		
Income tax provision for the year	3,679,857	821,094
	3,679,857	821,094

STATE PRINTING CORPORATION
Notes to the Financial Statements
For the Year Ended 31st December - 2016

15. PROPERTY, PLANT AND EQUIPMENT

Description	As at 31. 12. 2014	Opening Balance Difference	Additions/ Revaluations during the year	Disposals during the year	As at 31. 12. 2015	Opening Balance Difference	Additions/ Revaluations during the year	Disposals during the year	As at 31. 12. 2016
At Cost									
Land	475,126	-	-	-	475,126	-	-	-	475,126
Buildings	38,020,440	-	-	-	38,020,440	-	-	-	38,020,440
Plants and Machinery	217,243,529	-	19,208,796	-	236,452,325	-	15,798,845	(9,978,137)	242,273,033
Furniture and Fittings	4,336,576	-	73,650	-	4,410,226	-	66,321	-	4,476,547
Office Equipment	29,116,522	-	2,334,252	-	31,450,774	-	4,126,258	-	35,577,032
Factory Tools, Types	1,964,755	-	250,331	-	2,215,086	-	153,575	-	2,368,661
Electronic Reinstallations	2,572,951	-	-	-	2,572,951	-	-	-	2,572,951
Motor and other Vehicles	48,397,096	(2,839,797)	250,000	-	45,807,299	-	11,501,130	(225,000)	57,083,429
Computer & Accessories	32,974,366	-	2,818,955	-	35,793,321	-	4,514,135	-	40,307,456
Total	375,101,361	(2,839,797)	24,935,984	-	397,197,548	-	36,160,264	(10,203,137)	423,154,675
Accumulated Depreciation									
Buildings	28,227,475	-	783,416	-	29,010,891	-	783,417	-	29,794,308
Plants and Machinery	166,201,788	-	7,695,827	-	173,897,615	-	9,215,415	(9,948,690)	173,164,340
Furniture and Fittings	3,832,316	-	86,863	-	3,919,179	-	91,920	-	4,011,099
Office Equipment	17,167,882	-	1,975,002	-	19,142,884	-	2,264,181	-	21,407,065
Factory Tools, Types	1,667,282	-	269,021	-	1,936,303	-	123,021	-	2,059,324
Electronic Reinstallations	2,572,950	-	-	-	2,572,950	-	-	-	2,572,950
Motor and other Vehicles	34,691,895	(3,257,762)	4,855,369	-	36,289,502	2,623,512	7,038,691	(37,796,733)	8,154,972
Computer & Accessories	27,595,826	-	3,152,432	-	30,748,258	-	3,865,255	-	34,613,513
Total	281,957,414	(3,257,762)	18,817,930	-	297,517,582	2,623,512	23,381,899	(47,745,423)	275,777,570
Written Down Value	93,143,947				99,679,966				147,377,105



2016 REPORT OF AUDITOR GENERAL



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State Printing Corporation.

Report of the Auditor General on the Financial Statements of State Printing Corporation for the year ended 31 December 2016 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971.

The audit of Financial Statements of the State Printing Corporation for the year ended 31 December 2016, comprising the statement of comprehensive income, statement of financial position, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory information for the year ended 31 December 2016, was carried out under my direction in pursuance of provisions in Article 154(1) of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 23 of the State Printing Corporation Act, No. 24 of 1968. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management 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 management 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. 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation'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 financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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 Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial position of the State Printing Corporation as at 31 December 2016, and its financial performance and cash flows for the year then ended, do not give a true and fair view in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Sri Lanka Accounting Standards

The following non-compliances with Sri Lanka Accounting Standards were observed during the course of audit.

(a.) Sri Lanka Accounting Standard 01

- (i) Assets and liabilities should not be set off against each other unless otherwise required or authorized by Accounting Standards. However, the credit balance of Rs. 5,294,106 had been deducted from the loan balance of Rs. 732,679,823 receivable from both the Public and private sector by the end of the year under review, thereby showing only the net loan balance in the financial statements.
- (ii) Revelations should be made with respect to the nature of reserves included in the capital, and the objectives of maintaining them. Nevertheless, no such revelations had been made in respect of the capital reserves, general reserves, and development reserves, etc. being maintained by the Corporation.

(b.) Sri Lanka Accounting Standard 07

- (i) The cash flow statement had been balanced by including an adjusted balance of the prior year amounting to Rs. 38,327,278.

(ii) As the following weaknesses were observed in the cash flow statement presented along with the financial statements, the accuracy thereof remained questionable in audit.

- A sum of Rs. 30,000,000 had been paid by the Corporation to the Department of Inland Revenue during the year as income tax, but the sum shown in the cash flow statement had been Rs. 25,000,000.
- Flow of cash for purchasing assets under the investment activities should have been Rs. 37,941,634. However, the value had been shown as Rs. 36,160,264, and as such, cash flows had been understated by a sum of Rs. 1,781,370.
- The increase in the short term loans on which interest should be paid, had amounted to Rs. 99,537,720 by the end of the year under review, but that value had been shown as Rs. 86,782,343. Hence, the cash flow generated from the financial activities had been understated by a sum of Rs. 12,755,377.

(c.) Sri Lanka Accounting Standard 08

Without restating the financial position by adjusting the rectification of errors in prior years retrospectively, the corporation had shown the effect of Rs. 73,242,347 caused on the profit through the adjustments of the prior years by deducting it from the retained earnings in the statement of changes in equity of the year under review.

(d.) Sri Lanka Accounting Standard 12

Underallocations /overallocations, and differed tax income/expenditure relating to the preceding year should be identified as expenditure on income tax included in the expenditure on taxes of the current year. Nevertheless, only the expenditure on taxes of the current year had been identified as the tax

expenditure of the Corporation, and the following observations are made in that connection.

- (i) The underallocation on taxes with respect to the year 2015 amounted to Rs. 11,536,948, and that value had been debited to the retained earnings by the Corporation, thus overstating the post-tax profit of the year under review by a sum of Rs. 11,536,948.
- (ii) The accounting policy on the accounting of differed taxes, had not been disclosed in the statements. Specifically, the temporary differences, and permanent differences that arose in the computation of taxes, had not been identified and disclosed in the financial statements.

(e.) Sri Lanka Accounting Standard 16

- (i) When motor vehicles and other vehicles are revalued, all the items relevant to the said class of assets, should be revalued. Nevertheless, motor vehicles and other vehicles valued at Rs. 1,420,429 had not been revalued.
- (ii) The date that the motor vehicles and other vehicles had been revalued on , had not been disclosed in the financial statements.
- (iii) When the revalued amount exceeds the carrying amount as a result of the revaluation of assets, the value in excess should be identified in the other comprehensive income, and the profits of revaluation should be shown under a Head named “reserves of revaluation” in the statement of changes in equity. However, the profit from the revaluation of motor vehicles and other vehicles had been identified under retained earnings whilst the profit of revaluation had not been identified as other comprehensive income. As such, the total of the comprehensive income had been understated by a sum of Rs. 36,015,363, whereas the retained earnings had been overstated by that value.

- (iv) As the useful life of non-current assets had not been revised annually, assets costing Rs. 183,762,693 had still been in use despite being fully depreciated, and action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.

(f.) Sri Lanka Accounting Standard 19

A general description on the retirement benefit plan relating to accounting the retirement benefits, particulars on the adjustment of current value with respect to the initial and final balances, current service costs, actual gain or loss on the interest, and the previous service costs, had not been identified and how the profit or loss thereof had been adjusted, had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a.) The finished goods, and goods in progress shown in the financial statements had been erroneously overstated by a sum of Rs. 15,000,000 in contrast with the finished goods and goods in progress existed in accordance with the reports of the closing stocks as at 31 December of the year under review. As such, the profit of the year under review had been overstated by that value.
- (b.) The invoice value of Rs. 41,454,000 in respect of 02 printing works that had been completed in the month of December of the year under review, had been accounted as an income. However, a sum of Rs. 966,514 from the printing cost of the said printing work had been included in the closing goods in progress, whilst 92,117 Kg of papers valued at Rs. 10,898,322 had been included in the stock of raw materials. As such, the profit of the year under review had been overstated by a sum of Rs. 11,864,836.
- (c.) As the Value Added Tax of Rs. 31,511,137 included in the income from the sale of stationeries, had been considered as stationery income, the profit of the year under review had been overstated by that value.

- (d.) It was revealed in the audit test checks that late payments amounting to Rs. 26,007,297 had to be paid due to failure in handing over the school text books to the Educational Publications Department on time after being printed. However, only a sum of Rs. 3,571,658 had been provisioned in the accounts in that connection.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a.) The Corporation had failed to recover a loan balance older than 04 years totalling Rs. 82,045,046. That had represented 11 per cent of the debtor balance of Rs. 703,301,233 recoverable as at 31 December of the year under review.
- (b.) The creditor balance amounted to Rs. 80,124,336 as at 31 December of the year under review, and of that, the value of the creditors that had remained unsettled over 04 years, amounted to Rs. 11,016,563 indicating 14 per cent.
- (c.) The balances included in the paragraphs (a) and (b) above that had remained recoverable and payable from and to the National Paper Company Ltd by the end of the year under review, amounted to Rs. 9,753,427 and Rs. 7,460,675 respectively. The balances older than 03 years included therein amounted to Rs. 7,989,976 and Rs. 5,578,142 respectively, but action had not been taken to settle those balances.

2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following non-compliances with Laws, Rules, Regulations and Management Decisions, were observed during the course of audit.

Reference to Laws, Rules, and Regulations	Non-compliance
(a.) Section 59 of the Factories Ordinance, No. 45 of 1942	A fire alarm system had not been installed. The employees had not been provided with adequate training on how to cope with fire and safety precautions.
(b.) Public Enterprises Circulars	
(i) Section 4.2 of the Circular, No. PED1/2015, dated 25 May, 2015	Contrary to the provisions of the Circulars, a sum totalling Rs. 691,250 had been paid for the period October - December 2016 to 14 managers of the middle level of the Corporation at a monthly sum of Rs. 17,500 per officer who had been entitled to group transportation.
Section 3.2	In instances where the monthly fuel allowance is not adequate to perform duties, it is stated that the actual expenses incurred on fuel can be reimbursed by obtaining the approval of the Board of Directors. Nevertheless, the expenses on additional fuel of the General Manager, had been reimbursed by the Corporation prior to obtaining the approval.
(ii) Section 9.4 of the Circular, No. PED/12, dated 02 June, 2003.	An employee of the Corporation should not be released to a Ministry or other institution without approval of the Cabinet. Nevertheless, an officer in the post of Management Trainee, had been attached to the North Western Provincial Council with effect from 01 April 2008.

- (iii) Sections 01, 02, and 03 of the Circular, No. PED/05/2016, dated 16 December, 2016. Without obtaining the approval of the Board of Directors for paying bonus, a sum of Rs. 53,029,119 had been paid as bonus for the year under review only on the recommendation of the Chairman of the Corporation.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Corporation for the year ended 31 December of the year under review had resulted in a surplus of Rs. 943,720 as compared with the corresponding surplus of Rs. 2,111,384 for the preceding year, thus observing a deterioration of Rs. 1,167,664 in the financial result. As compared with the preceding year, the increase in the cost of sales, distribution expenses, and other operational expenses by sums of Rs. 152,393,746, Rs. 8,761,123, and Rs. 7,007,387 respectively had mainly attributed to the said deterioration in the financial result.

An analysis on the financial results of the year under review and the 04 preceding years revealed that a surplus had resulted in from the year 2012 up to the year 2016, but the said surplus had exponentially decreased from the year 2012 up to the year under review. However, when the employee remuneration, Government taxes, and depreciation on non-current assets had been adjusted to the financial result, the contribution of the Corporation for the year 2012 amounting to Rs. 469,013,635 had continuously improved and reached Rs. 599,107,326 by the end of the year under review.

4. Operating Review

4.1 Performance

The objectives of the Corporation summarized in terms of the State Printing Corporation Act, No. 24 of 1968, and the Acts amended thereon, are given below.

- (i) To carry out any printing work or any printing and publishing work required by the Government, local bodies or any corporation established by law or any board established by or under any law.
- (ii) To undertake the manufacture, import, export, purchase, or sale of stationeries, and other related products.
- (iii) To undertake the sale, distribution, export, and import of books, educational aids, newspapers, magazines and other publications printed or published by the Corporation or by any other institution in Sri Lanka.

The following matters were observed during the examination carried out on the performance in achieving the aforesaid objectives in the year under review.

- (a.) The income generated through the activity of undertaking the sale, distribution, export, and import of books, educational publications, newspapers, magazines and other publications printed or published by the Corporation or by any other institution in Sri Lanka during the period 2011 – 2016 represented 0.01 – 0.08 per cent of the total income of the Corporation. Hence, it was observed that the Corporation had not drawn adequate attention to achieve those objectives.
- (b.) An income amounting to Rs. 1,090,385,915 had been received from the Educational Publications Department, and the Lotteries Board in the year under review for printing the school text books and lotteries respectively. That income represented 74 per cent of the total income of the year amounting to Rs. 1,477,236,807. Hence, it was observed that the Corporation had not diversified its sources of income.

- (c.) Despite being planned to conduct 23 training programmes for the officers of the Corporation, only 10 of those programmes had been conducted in the year under review.

4.2 Transactions of Contentious Nature

Despite being informed by 02 private institutions that no balance whatsoever remained receivable to them in accordance with the verification of balances as at 31 December of the year under review, a sum totalling Rs. 1,180,993 had been provisioned in the accounts in order to pay to those institutions by the Corporation.

4.3 Management Activities

The following observations are made.

- (a.) A marketing plan had not been prepared for the year under review ensuring the proper achievement of the targets of sales, and the smooth functioning of the Marketing Division.
- (b.) Even though barcodes had been printed on the excise books being printed by the Corporation by paying a registration fee of Rs. 10,000 to a private institution annually since the year 2010, the activities relating to sales could not be performed efficiently as the sales outlets of the Corporation had not been provided with the infrastructure required to use the barcodes.
- (c.) Twelve sales outlets belonged to the Corporation, but the employees therein had not been provided with any training whatsoever relating to the sales management in the year under review or the preceding years.
- (d.) It is a best management practice to increase the income of the sales income of the outlets, motivate the employees by increasing their efficiency, and progressively increase the annual sales targets. However, the targets set for 06 sales outlets of the Corporation in the year under review had been decreased in the range of Rs. 1,000,000 to Rs. 5,500,000 as against the preceding year.

- (e.) The State Printing Corporation, being functional in a competitive market, had not conducted a market survey in the year under review or the preceding years with respect to their excise books, publications, and other industrial level printing activities.

4.4 Operating Activities

The following observations are made.

- (a.) Six of the 10 sales outlets that had been in existence since the previous years, had not accomplished 12 – 65 per cent of their targeted sales in the year under review. Three sales outlets had been continuously sustaining losses from the year 2013 up to the year 2016, and the annual loss ranged from Rs. 160,550 to Rs. 1,556,829.
- (b.) Five old machines in the lithographic division had broken down for 1999 machine hours during a period of 05 months from August to December 2016, the period in which the school text books for the year 2017 had been printed. As such, the printing of school text books had been stymied.

4.5 Resources of the Corporation Released to Other Government Institutions

An extent of 13 acres, 02 roods, and 06 perches from the land at *Panaluwa* in *Padukka* owned by the Corporation, had improperly been vested in the Industrial Development Board for the establishment of an industrial park.

4.6 Staff Administration

The following observations are made.

- (a.) Ten managers in the top and middle levels had been scheduled to be retired within the 03 ensuing years, but no succession plan had been prepared by the Corporation for the said posts.

- (b.) The post of Marketing Research Officer, a post that helps increase market share, and obtain printing orders from the competitive printing field, had remained vacant from 18 January 2016 up to the end of the year under review.
- (c.) Thirteen employees had been appointed permanently to the unapproved post of Press Aide in the year under review. By the end of the year under review, 212 persons had been employed in the post of Junior General Production Employee that had remained unapproved along with the post mentioned above.

5. Accountability and Good Governance

5.1 Budgetary Control

Comparing the budgeted expenditure with the actual expenditure, variances ranging from 20 per cent to 140 per cent were observed in respect of 29 Items of Expenditure. As such, the Budget had not been made use of as an effective instrument of management control.

5.2 Tabling of Annual Reports

The Annual Reports of the Corporation for the years 2012 to 2014 had not been tabled in Parliament in terms of Section 6.5.3 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed on the preparation of financial statements in accordance with the Sri Lanka Accounting Standards, and Sri Lanka Financial Reporting Standards.

H.M. Gamini Wijesinghe.
Auditor General



2016

STATE PRINTING CORPORATION COMMENTS ON FINANCIAL STATEMENTS

2.2 Comments on Financial Statements

2.2.1 (a) Sri Lanka Accounting Standards Number 01.

- (i) Action will be taken to rectify these errors in future accounting activities.
- (ii) Action will be taken to rectify these errors in future accounting activities.

(b) Sri Lanka Accounting Standards Number 07

- (i) Income Tax, VAT, NBT, ESC and PAYEE pertaining to the past several years have were not paid. This year, the said taxes were paid and issues have cropped up when reconciling the same. However, since the respective adjustments were made this year, it has been possible to prepare cash flow statements for ensuing years accurately.
- (ii) This error has occurred because all tax debits have been entered in the same account, i.e., the account of the Inland Revenue Commissioner General when the Statement of Financial Status was prepared for final accounts. Stern instructions have been issued to prevent this from happening in future and to enter the taxes paid in the cash flow statement accurately.

Cash flow statement has been prepared by regarding the Rs. 36,160,246/- mentioned in Property and Plant as purchasing of fixed assets.

The sum of Rs. 569,351,345.71/- which is the balance that remained in the short term loan account as at 31-12-2016 has been shown correctly in the cash flow statement.

(c) Sri Lanka Accounting Standards Number 08

Most of the rectifications are rectifications from year 2014 or years prior to that. Accordingly, these have been depicted in the Change In Assets Statement after adjusting to profits/ losses of previous years.

- (d) (i) Although no quantitative change occurred in year 2015, this year, i.e., in year 2016 allocation was made following proper methodology.
- (ii) Since the final accounts of the Corporation and most of the transaction reports related to the same are prepared manually, it will take a long period of time to prepare final accounts and declare profits. Accounts statements need to be prepared and submitted to the Department of Auditor General before 28 February next year. Given the circumstances, it is difficult to make a 100% accurate allocation for income tax. Only an approximated provision is made.

(E) Sri Lanka Accounting Standard 16

- (i) Motor cycles and all other vehicles were revaluated and the respective values have been indicated. Since most in the category of bicycles and handcarts are not in use anymore, and since the value of recently purchased items are reasonable, the values of those items were accounted in terms of their life period.
- (ii) Motor vehicles and other vehicles were revaluated on 13 January 2016.
- (iii) Revaluated profit is depicted separately under a separate head so that it can be identified easily.
- (iv) All assets have been revaluated by now. There was a delay in obtaining the respective reports. The cost will be approximately Rs. 02 million.

(F) Sri Lanka Accounting Standard 19

Arrangements have been made to adopt this method in future accounting activities.

2.2.2 Accounting Deficiencies

(A) Errors in calculating the final stock

When information furnished by the Costing Division for the preparation of final accounts were reconciled against information furnished by the Ledger Accounts Division, it was observed that there were certain discrepancies which required correction. The Costing Unit was under the purview of the Deputy Finance Manager who retired in November 2016. Hence, errors in the reports prepared for the period up to 31 December 2016 were rectified and values of finished and unfinished stocks were entered into accounts.

- (B) This has occurred because accurate information on sourcing of raw material had not been provided to the Costing Division although school textbooks for work references 160353 and 160370 had been printed and invoiced. However, action will be taken to ensure that such instances do not recur.
- (C) A separate tax invoice is not issued to the customer when selling stationery. We do not charge a separate amount from the customer as VAT. Therefore such an amount is not separately indicated in the invoice given to them. Therefore, since the beginning of the Corporation, the total revenue is entered into accounts as income to the Corporation from stationery and the same is indicated in the Statement of Accounts. VAT for stationery has to be paid to Department of Inland Revenue, therefore it is calculated separately and remitted to the Department of Inland Revenue.
- (D) There was a delay in importing raw material in the recent past as a result of the unfavourable financial situation of the Corporation. The bank accounts of the Corporation had to be suspended since taxes in arrears to the Department of Inland Revenue had to be paid. As a result there was a delay in opening Letters of Credit. Hence it was not possible for the Corporation to acquire raw material including imported paper which is a major raw material required for production.

Since action was taken by the Corporation to write to the Commissioner General of Educational Publications informing them of the situation, the Corporation was hopeful of not having to pay late fines. Hence provisions for demurrage were not included in the provisions account.

2.3 Accounts Receivable and Payable

- (a) As per decision taken in Board Paper 5993, action has been taken to regularize the loan period. Accountant (Revenue) is currently taken necessary steps to recover money from debtors who have exceeded the stipulated period of time given for repayment.
- (b) Action will be taken in 2017 to look into past debtors. Once the actual debt balances are identified with respect to debtors, action will be taken to recover these sums on instalment basis.
- (c) Although a letter dated 30-06-2016 with the signature of the General Manager was sent with a copy to the Secretary to the Ministry asking them to settle the payable balance of Rs. 2,292,752.26 the Corporation has not yet received a reply from them. Payable balance is as follows:

Recoverable from National Paper Corporation	- Rs. 9,753,427.00
Payable to National Paper Corporation	- Rs. (7,460,675.00)
Net recoverable amount from the National Paper Corporation	- Rs. 2,292,752.00

2.4 Non-Compliance with Laws, Rules and Regulation

- (a) Chief of Security has confirmed that firefighting equipment was checked last year. Action will be taken to upgrade them in future. Although a fire alarm has been installed, it has not been serviced. Therefore Chief of Security has been assigned the responsibility of looking into these aspects further and rectifying shortcomings.

A fire drill/ training on the use of firefighting equipment has not been conducted recently. Chief of Security has been informed in writing to take necessary action in this regard in future.

- (b) **i. Section 4.2**

Mid level managers of the Corporation have been given transport facilities in view of the fact that the Corporation is public commercial entity, that it is situated in an out of Colombo location and that it is necessary to endure that the officers report to duty on time.

Since these officers reside in different areas, 04 vehicles of the Corporation were deployed to provide group transport facilities to them for a short period of time. However the officers reported to work late which caused detrimental effects to the production process of the Corporation as various sections of production could not start work on time.

This matter has been brought to the attention of the Board of Directors. Accordingly, in consideration of ensuring progress of the institution, the matter has been submitted to approval from the Treasury through the Ministry with the agreement of the Board of Directors.

Section 3.2

- (i) When the General Manager executes his duties, there are instances in which he exceeds the fuel allowance allocated to him monthly. When this occurs, approval of the Board of Directors is obtained before such expenditure on fuel is reimbursed. This practice has continued since March 2017.
- (ii) Mr. Adikari who occupied the post of Management Trainee at the Corporation, was released from the Corporation a long time ago and is employed elsewhere. Since the holder of this position has not been providing services to the Corporation for an extended period of time, a letter was sent considering this post to be not required for the functioning of the Corporation. (This post has been removed from the new recruitment procedure)

- (iii) Similar to previous year, proceeds from the sale of off-cuts from the production of school textbooks in 2016 were used to pay bonuses on 28-12-2016 as per written notification sent by the Chairman. This was done with the objective of motivating employees further in order to reach higher production capacity. The matter was submitted to the BoD at the next meeting of the Board of Directors held on 27-01-2017.

3. Financial Review

3.1 Financial Outcomes

Attention has been drawn to this matter.

4. Review of Operations

4.1 (a) Attention will be drawn to this matter.

(b) Attention has been drawn to this matter.

(c) Although the training programmes carried out in year 2016 amount to 10 programmes altogether, attitude development and marketing related programmes were targeted at all employees of the Corporation. 221 and 30 individuals respectively participated in these programmes.

4.2 Transactions Leading to Controversy

(i) J. D. C. Graphic Systems and J. D. C. Printing Technologies (Pvt.) Ltd. are companies belonging to the same Group. They are located in the same premises. A sum of Rs. 1,175,623.00 is payable to J. D. C. Printing Technologies. From year 2017 onwards, action has been taken to maintain a separate ledger account for this.

(ii) Entries in our books indicate that there is a payable balance of Rs. 5370.00 to Sky Line Trading for year 2011. However, action will be taken to make necessary adjustments based on the outcome of verification of the same.

4.3 Management Activities

(a) Action has been taken to resolve this issue in 2017.

(b) Bar codes were obtained considering it to be a requirement to face market competition given the competitive nature of products in the market. The Corporation had made plans to purchase an ERP system. Had this system been functional, it would have been possible to obtain all necessary parts. Since a new printing machinery is to be purchased for the use of the Secure Printing Division, the scanner currently used by this Division will be available. Simultaneously, a basic software system too is expected to be put in place. Once this occurs, it will be possible to use bar codes.

(c) Training on marketing management will be provided in future.

(d) When annual sales targets are assigned to each sales outlet, it is done in consideration of covering the cost of the sales outlet. Furthermore, data on sales in previous year and data on this year's production obtained from the Production Division are taken into consideration when setting sales targets. Thus, sales targets for 2016 which differed from the sales targets of previous year were set accordingly to each sales outlet. When setting these targets, particular attention was focused to the capability of the sales outlet to achieve the set target. Furthermore, it was endeavoured to

consider practical realities and not set lofty targets which could not be achieved and would make the employees lose their interest and enthusiasm from the very outset due to the impossibility of the task.

The plan is to achieve these targets for now and to increase facilities provided to sales outlets and increase their targets gradually.

- (e) Necessary action in this regard will be taken in future years.

4.4 Operational Activities

- (a) Attention has been drawn to this matter
- (b) Attention has been drawn to this matter

4.5 Resources of the Corporation Handed over to Other Public Institutions

Since the Industrial Development Board too is a public institution, action is been taken to discuss the matter with respective parties from both sides to make an official transfer.

4.6 Staff Administration

- (a) Most of the officers occupying higher level management positions in the Corporation are those who were recruited to the post of Management Trainee or the posts mentioned below. Having been successful and gaining experience in their respective posts, they have been promoted to higher level posts. It is clear that officers eligible for future vacancies too are among these officers. Although the post of Management Trainee is no longer in the cadre, graduates are recruited to posts such as Assistant Superintendent and Officer In Charge. They obtain required training in these posts. They can be trained further to occupy higher level posts and handle greater responsibilities. However, the recruitment procedure stipulates that internal or external recruitments can be made after publishing public notices. Furthermore, managers recruited at junior and mid levels too can be promoted based on merit to fill vacancies.
- (b) Market research was conducted under a Market Research Officer but this has come to a halt after the aforesaid officer left the Corporation. However, from time to time various market research is carried out as and when required for essential purposes. Data from these researches are used when making decisions related to products of the Corporation.
- (c) Upto now, unskilled workers were recruited on temporary basis during the school textbook production period to ensure there is no delay in printing the textbooks. Requirement of unskilled workers change from time to time on the basis of print demand involving different machinery in plants.

Therefore, recruitment had to be made on contract basis in accordance with the existing demand. The Board of Directors is informed when such action is taken and if necessary the matter is referred to the approval of the Management Services Department.

There are 138 unskilled worker posts in the approved cadre. Due to a request made by employees in this category, this post has been named 'Printing Assistant'. However the duties of the post remain the same. Board of Directors is aware of the name change in this designation. The post of Junior General Production Assistant has been approved by the Management Services Department as a post exclusive to the existing staff. Once the current staff retires or their posts become vacant due to death, their posts will be no more.

5. Accountability and Good Governance.

5.1 Budget Controls

Currently, monthly expenditure is brought to the attention of the Board of Directors through Board Papers for the purpose of their supervision. Therefore it is envisioned that the budget will be productively utilized as a management tool in future.

5.2 Submission of Annual Reports

Action will be taken to submit the Annual Reports of 2013 and 2014 to Parliament after obtaining approval from the Cabinet. Annual Report of 2015 is currently at the printer and this too can be submitted to the Cabinet in a few weeks time.

6. Systems and Controls

Attention has been drawn to this matter.

