Punjab Resource Management Program

Financial Viability Analysis of Government Printing Press

November 1st 2009

Final Draft Report

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List of Acronyms and Abbreviations

COGS	Cost of Goods Sold
EBITDA	Earnings before Interest Taxation Depreciation and Amortisation
GPP	Government Printing Press
GoPB	Government of Punjab
LT	Long Term
ROA	Return on Assets
ROC	Return on Capital Employed
ROE	Return on Equity

1. Government Printing Press (GPP)

This report provides a financial viability analysis of the GPP based on the financial statements and records between 2004-2008 that were provided by the GPP and were verified to be correct. All these accounts have been audited by the Commercial Audit wing of AG Office. This report must be read in continuation of the Inception Report produced for the project to cover the project back ground. The copies of the financial statements provided by the GPP are placed at **Appendix A** for record and verification of the results and numbers quoted in this report. Some numbers in the analysis have been modified after a sensibility check and any such errors are reported accordingly.

1.1 Introduction

GPP is an attached department of the Industries Department, Government of the Punjab. GPP runs two presses, one based in Lahore and one in Bahawalpur. Its main purpose is to provide printing services to various departments of Government of the Punjab. The primary reasons to establish GPP[1] may be stated as:

- to make available to the Government of Punjab a printing facility that could meet the printing requirements of the Government in a cost efficient manner;
- to make available to Government of the Punjab a printing facility that could cater for the voluminous printing requirements of the Government on a timely basis; and
- to make available to Government of the Punjab a printing facility for undertaking 'secret' printing notwithstanding the cost considerations.

Another reason for establishing the GPP was that at the time of its establishment there was insufficient capacity in the private sector to undertake the large and urgent printing requirements of the government. It must also be noted that similar provincial printing presses also continue to exist in all the other provinces as well.

GPP operates under a budget transfer from the government. GPP has complained that the government has kept their budget constant at Rupees 3 Million over the last few years; however, this information is not backed by the evidence provided in the financial statements. According to GPP officials this stance of the government has significantly affected the performance of GPP, especially given the high degree of inflation that has been observed in the paper industry. The officials also informed that under the current capacity if GPP was to run two shifts of 10 hours each it would require around 7 Tonnes of

[1] Controller GPP and previous report on Industries Department done by Ferguson's in 2006

paper every day. At this rate the total budget of Rupees 3 Million will only last for a month or so. This highlights that GPP currently possesses significant idle capacity. The current business practice is to evenly spread the allocated budget over ¾ of a year and in many instances GPP have had to ask for additional funds to buy paper. Although, not established as part of the current exercise but it will be useful to quantify whether this spreading of budget is due to lack of budget or lack of work/sub-optimal use of capacity as the financial information provided negates this claim.

GPP also carries out some work for the government free of charge. Example of this includes weekly printing of gazette notifications. GPP claimed that this printing runs into hundreds and thousands of pages every week. Another concern raised by them was the hostile attitude of departments towards them and significant delays by other government departments to clear their due payments. For example, GPP printed around 600,000 forms for the Green Tractor Scheme last year for the Agriculture Department within a very short time period and the payment chalans were not received even after a significant delay. GPPs claim to fame this year was them being able to print the initial 10,000 copies of the provincial budget in 4 days. In short, the above discussion points to the direction that GPP is still in use by the government, however only meagrely. In terms of staff size GPP over the last ten years has seen its staff size shrink significantly to around 200 individuals from 1700 at one point. Moreover, all the machines available at the press in Lahore (14 in number) are in good working condition. Recent developments at GPP include:

- 60 Kanals[2] of land has been taken away from GPP and allocated to the District Sessions Courts, adjacent to the Lahore premises of GPP. This will reduce the asset value of GPP, which will lower the opportunity cost. It is also noted that the financial accounts do not account for the value of land under use by GPP.
- GPP were given permission to use their depreciation reserve fund to purchase two refurbished machines costing a total of Rupees 8 Million. This has added to their existing unutilised capacity.
- P&DD has also recently approved a PC-1 for GPP to build a new hall at a cost of Rs. 5.563 Million, buy a Folding machine for Rs. 2.0 Million, Glue Binding Machine Rs. 1.5 Million and Paper Cutting Machine Rs. 1.5 Million.

2. Accounting & Reporting System & Issues

The accounts of GPP are maintained on a cash receipt and disbursement basis. The system of recording is single entry. The financial statements provided by the GPP's officials comprise of the Balance Sheet, Trading and

[2] Reference notification was provided by the GPP.

Profit and Loss account, Production Account, Material Account, Store/Stock Account of Book Depot Sale and Schedule of Fixed Assets. The aforesaid accounts have been prepared directly from underlying records and registers on a proforma basis. In the absence of a double entry system of accounting and non-adherence to the accrual basis of accounting, it is impractical to ensure the completeness regarding the recording of all transactions that have occurred during the period. Several inconsistencies were observed (which will be discussed in this report later) and discussions were held with the GPP officials and staff from AG Office commercial audit wing. Neither of them was able to provide reasonable justifications and also agreed that the accounting system was inadequate and most of the figures in the balance sheet were not supported by any evidence. The financial management system is inadequate and it is extremely difficult for an independent person to judge the completeness of information.

During the analysis, some major anomalies were observed, for example the closing stock of 2007 was reported differently as compared to the starting stock of 2008. Once this element was corrected the statements for 2008 very showing a net loss as compared to a net profit position as quoted in the reported/audited accounts. It is recommended that GPP should adopt proper double entry accounting systems and standards to ensure proper accrual based accounting. It is further recommended that accounts of GPP are fully audited to fill current gaps in the information.

3. Limitation of Financial Analysis

The financial analysis of an entity is normally conducted to establish understanding about its profitability, sustainability and financial stability. The financial numbers only reflect the commercial angle and sense of an entity. GPP, like other PSOs, structurally is very different to a private sector commercial organisation,, hence the analysis provided must be read in light of this spectrum.

GPPs business model is very simple. At the start of the financial year GPP submits their budget requirements to the Industries Department. TheIndustries Department gets the budgeted amount from the Finance/Treasury and purchases paper and other material for GPP. This is then provided to GPP. GPP is not allowed to do any printing services for the private sector and hence has to rely solely on the demand raised by the government departments. The departments send in their requests, deposit the money with the treasury and provide a copy of the chalan form to GPP. GPP records this transaction as a sale. The price charged to the department is calculated by a base line formula designed by the Finance Department. The GPP is not allowed, neither has the capacity to compute cost-based pricing for individual jobs. As a result, depending on the nature of printing, some jobs are more profitable and some are loss making. However, there is no formal proof to quantify this claim but it makes sense due to the umbrella cost structure that exists. In other words, the demand, costing, the sale price and the budgeted paper are all pre-decided for GPP and limited autonomy is allowed to GPP to function. It can be argued, that GPP, is just part in the cash cycle where treasury releases money to industries to buy paper for GPP and department retransfers that cash back to treasury by getting their print jobs done. Based on this working in the analysis done below the report has tried to estimate the true cost of printing on an annual basis. This cost figure can be compared by the total volume of work printed by GPP to get an idea of average cost of printing. This can then be compared with the private sector costs to get an idea if GPP is costlier or cheaper.

To conclude the section, it is re-iterated that the GPP is not designed to effectively cost its printing, decide on suitable profit margins or decide on the scope of its work. Given the limited flexibility / autonomy in the working of the press the financial numbers below must be read based on this business / work model of GPP. The report at **Appendix B** also provides a SWOT analysis of GPP articulating the information discussed above and that contained in the Ferguson's report of 2006.

4. Financial Highlights

This section provides the Income Statement, Balance Sheet and Asset Information on GPP over the last five years. This information is represented and deduced by re-developing the GPP's original financial statements in a more user friendly format.

4.1 Income Statement of GPP Lahore

Figures in Pak Rs.	2003-04	2004-05	2005-06	2006-07	2007-08
Sales	43,578,259.00	52,691,535.00	58,852,278.00	68,356,826.00	78,304,379.00
Other income	1,028,346.00	774,198.00	-	-	2,378,928.00
Total revenue	**44,606,605.00**	**53,465,733.00**	**58,852,278.00**	**68,356,826.00**	**80,683,307.00**
O/B: Stock	-	6,762,323.29	8,521,743.00	6,958,061.00	9,724,988.00
Recieved during the Year	-	42,272,410.00	43,992,696.00	53,798,268.00	62,636,527.00
C/B: Stock	-	8,521,743.00	6,958,061.00	9,724,988.00	10,039,586.00
Cost of Goods Sold	**39,507,967.00**	**40,512,990.29**	**45,556,378.00**	**51,031,341.00**	**62,321,929.00**
Gross Profit	**4,070,292.00**	**12,178,544.71**	**13,295,900.00**	**17,325,485.00**	**15,982,450.00**
Employee Related Expence	884,024.00	1,106,225.00	1,605,200.00	1,975,076.00	2,349,875.00
Running & Administration	507,592.00	576,436.00	477,294.00	752,351.00	945,372.00
Depreciation	108,310.00	105,603.00	105,603.00	824,905.00	698,711.00
Controller's Office Expence	1,104,733.00	1,253,018.00	1,743,392.00	1,743,392.00	1,254,320.00
Others	1,407,223.00	4,175,925.00	3,743,949.00	6,840,167.00	12,107,306.00
Interest on Capital	750,636.00	5,695,272.00	2,847,636.00	3,419,771.00	3,264,660.00
Total Expenditure	**4,762,518.00**	**12,912,479.00**	**10,523,074.00**	**15,555,662.00**	**20,620,244.00**
Net Profit	**336,120.00**	**40,263.71**	**2,772,826.00**	**1,769,823.00**	**- 2,258,866.00**

Note: The Accounts stated the opening balance of stock in 2008 as 7,180,139 which is not same as closing balance

The opening balance for stock in 2008 was reported to be Rs. 7,180,139 which is different from the closing stock figure which was equal to 9,724,988. The above accounts have made this adjustment which has resulted in a net loss of Rupees 2.26 Million as compared to the financial accounts showing a profit of Rupees 285,983.

Both the sales and cost of sales have been steadily increasing at almost the same pace, however, this increase is even less than the paper inflation (paper price have doubled in last 5 years). This shows that the increase in sales and cost of sales do not necessarily imply that GPP is producing more prints, it may well be producing less and this rise may well be fully attributed to increase in prices.

On the Expenditure side where the absolute size of any element is not alarming, the two biggest cost heads "Controllers office share" and "others" have consistently increased and are also the least transparent in financial records.

4.2 Balance Sheet of GPP Lahore

Figures in Pak Rs.	2003-04	2004-05	2005-06	2006-07	2007-08
Current Assets:					
Debtors	49,546,490.00	60,662,894.00	52,387,455.00	50,578,340.00	50,090,462.00
Stock	6,762,322.00	8,521,743.00	6,958,061.00	7,180,139.00	10,039,586.00
Material Stock	57,105,775.00	54,296,551.00	55,689,780.00	44,878,227.00	41,790,011.00
Work in progress	3,611,891.00	6,107,846.00	5,920,300.00	17,472,430.00	37,665,904.00
cash in Hand	3,810.00	3,810.00	3,810.00	3,810.00	3,810.00
Secuirity Deposit	1,168,000.00	616,000.00			
Total Current Assets	**118,198,288.00**	**130,208,844.00**	**120,959,406.00**	**120,112,946.00**	**139,589,773.00**
Long Term Assets:					
Fixed Assets	7,545,460.00	6,125,230.00	6,019,627.00	8,417,635.00	7,718,924.00
Total LT Assets	**7,545,460.00**	**6,125,230.00**	**6,019,627.00**	**8,417,635.00**	**7,718,924.00**
Total Assets	**125,743,748.00**	**136,334,074.00**	**126,979,033.00**	**128,530,581.00**	**147,308,697.00**
Current Liabilities					
Creditors	54,552,847.00	50,839,785.00	44,746,514.00	43,741,814.00	44,298,716.00
			616,000.00	761,000.00	791,000.00
Long Term Liabilities	-	-	-	-	-
Total Liabilities	**54,552,847.00**	**50,839,785.00**	**45,362,514.00**	**44,502,814.00**	**45,089,716.00**
Net Assets	**71,190,901.00**	**85,494,289.00**	**81,616,519.00**	**84,027,767.00**	**102,218,981.00**
Financed By:					
Capital	71,190,901.00	85,494,289.00	81,616,519.71	84,027,767.71	99,674,132.71
Error					2,544,849.00
Total Financing	**71,190,901.00**	**85,494,289.00**	**81,616,519.71**	**84,027,767.71**	**102,218,981.71**

The balance sheet shows reasonable amount of liquidity and solvency for GPP mainly due to no long terms liabilities being accumulated. However, the figures for creditors and debtors are remarkably high and have stayed stagnant over the period shown above. Similarly the stock and work in progress have increased significantly. Given the accounting controls these numbers are seriously questionable. The error reported in 2008 was due to wrong calculation of profit as discussed above. The capital calculation method is also not consistent and included a significant entry under the head of 'receipts from other sources'. No reasonable explanation exists for this entry and it is presumed that this is just a balancing entry to balance off the balance sheet.

It is strongly recommended that the balance sheet be re-written after verifying the sources of all numbers and also including land as part of fixed assets.

4.3 Income Statement of GPP Bahawalpur

Figures in Pak Rs.	2003-04	2004-05	2005-06	2006-07	2007-08
Sales	12,249,202.00	9,647,328.00	9,524,653.00	11,414,026.00	16,121,945.00
Other income	NA	NA	NA	NA	NA
Total revenue	**12,249,202.00**	**9,647,328.00**	**9,524,653.00**	**11,414,026.00**	**16,121,945.00**
O/B: Stock	1,925,809.00	3,137,121.00	4,153,050.00	3,998,559.00	3,977,637.00
Recieved during the Year	9,776,387.00	7,750,305.00	8,154,765.00	7,361,998.00	8,211,488.00
C/B: Stock	3,137,121.00	4,153,050.00	3,998,559.00	3,977,637.00	5,460,686.00
Cost of Goods Sold	**8,565,075.00**	**6,734,376.00**	**8,309,256.00**	**7,382,920.00**	**6,728,439.00**
Gross Profit	**3,684,127.00**	**2,912,952.00**	**1,215,397.00**	**4,031,106.00**	**9,393,506.00**
Employee Related Expence	556,163.00	360,000.00	626,677.00	725,794.00	657,124.00
Running & Administration	348,789.00	383,672.00	407,198.00	508,007.00	610,613.00
Depreciation	150,142.00	82,227.00	139,631.00	82,182.00	77,491.00
Controller's Office Expence	1,104,733.00	1,253,018.00	1,743,392.00	1,521,499.00	1,741,000.00
Others	50,342.00	69,428.00	-	-	-
Interest on Capital	388,833.00	662,630.00	589,760.00	949,556.00	978,409.00
Total Expenditure	**2,599,002.00**	**2,810,975.00**	**3,506,658.00**	**3,787,038.00**	**4,064,637.00**
Net Profit	**1,085,125.00**	**101,977.00**	**- 2,291,261.00**	**244,068.00**	**5,328,869.00**

The sales figures recorded for the Bahawalpur press are much more variable as compared to the Lahore Press. In the year ended 2007-08 they have recorded a profit of over Rupees 5 Million. This has been a result of both a high level of closing stock reducing cost of goods sold and a sudden increase in sales and gross margin in the last year. The last year figures are not reflective of previous year trends.

On the expenditure side again the Controller's Office Expense is the biggest head. If we combine the numbers of GPP-Lahore and GPP-Bahawalpur the expense will run over three million a year, yet is not quantifiable in accounts. Below (Section 4.5) we have provided a combined income statement of the GPP (this statement do not account for internal transfers if there were any)

4.4 Balance Sheet of GPP Bahawalpur

Figures in Pak Rs.	2003-04	2004-05	2005-06	2006-07	2007-08
Current Assets:					
Debtors	-	-	-	-	-
Stock	3,137,121.00	4,153,050.00	3,998,559.00	3,977,637.00	5,460,186.00
Material Stock	7,549,715.00	10,602,201.00	12,829,058.00	14,184,502.00	18,020,250.00
Work in progress	395,189.00	1,229,850.00	3,422,700.00	1,598,915.00	1,221,000.00
cash in Hand	8,362.00	12,752.00	-	-	-
Secuirity Deposit	-	-	-	-	-
Total Current Assets	**11,090,387.00**	**15,997,853.00**	**20,250,317.00**	**19,761,054.00**	**24,701,436.00**
Long Term Assets:					
Fixed Assets	1,121,609.00	1,106,352.00	1,016,661.00	943,857.00	896,526.00
	1,000.00				
Total LT Assets	**1,122,609.00**	**1,106,352.00**	**1,016,661.00**	**943,857.00**	**896,526.00**
Total Assets	**12,212,996.00**	**17,104,205.00**	**21,266,978.00**	**20,704,911.00**	**25,597,962.00**
Current Liabilities					
Creditors	3,080,695.00	1,242,647.00	1,611,903.00	422,782.00	2,140,173.00
Depreciation Reserve	4,033,130.00	4,065,357.00	662,954.00	712,954.00	762,954.00
		1000	1000	1000	1000
Long Term Liabilities	-	-	-	-	-
Total Liabilities	**7,113,825.00**	**5,309,004.00**	**2,275,857.00**	**1,136,736.00**	**2,904,127.00**
Net Assets	**5,099,171.00**	**11,795,201.00**	**18,991,121.00**	**19,568,175.00**	**22,693,835.00**
Financed By:					
Capital	5,097,171.00	11,795,201.00	18,991,121.00	19,568,175.00	22,693,835.00
Error					-
Total Financing	**5,097,171.00**	**11,795,201.00**	**18,991,121.00**	**19,568,175.00**	**22,693,835.00**

The balance sheet shows reasonable amount of liquidity and solvency for GPP mainly due to no long terms liabilities being accumulated. However, the figures for material stock and stock of finished goods are remarkably high and have gradually creeped up over the period shown above. On the liability side a figure for depreciation reserves has been placed which was significantly high until 2004-05 but since then has dropped significantly. During discussions it was informed that the depreciation reserve fund is where GPP can access financing from machinery and is maintained at the Finance Department. However, it is not clear why it is showing up on the liability side. The accounts for GPP Lahore make no such provisions. Given the accounting controls these numbers are seriously questionable. The capital calculation method is also not consistent and includes a significant entry under the head of 'cross book transfer'. No reasonable explanation exists for this entry and it is presumed that this is just a balancing entry to balance off the balance sheet.

It is strongly recommended that the balance sheet be re-written after verifying the sources of all numbers and also including land as part of fixed assets.

4.5 Combined Income Statement

Figures in Pak Rs.	2003-04	2004-05	2005-06	2006-07	2007-08
Sales	55,827,461.00	62,338,863.00	68,376,931.00	79,770,852.00	94,426,324.00
Other income	1,028,346.00	774,198.00	-	-	2,378,928.00
Total revenue	**56,855,807.00**	**63,113,061.00**	**68,376,931.00**	**79,770,852.00**	**96,805,252.00**
O/B: Stock	1,925,809.00	9,899,444.29	12,674,793.00	10,956,620.00	13,702,625.00
Recieved during the Year	9,776,387.00	50,022,715.00	52,147,461.00	61,160,266.00	70,848,015.00
C/B: Stock	3,137,121.00	12,674,793.00	10,956,620.00	13,702,625.00	15,500,272.00
Cost of Goods Sold	**48,073,042.00**	**47,247,366.29**	**53,865,634.00**	**58,414,261.00**	**69,050,368.00**
Gross Profit	**7,754,419.00**	**15,091,496.71**	**14,511,297.00**	**21,356,591.00**	**25,375,956.00**
Employee Related Expence	1,440,187.00	1,466,225.00	2,231,877.00	2,700,870.00	3,006,999.00
Running & Administration	856,381.00	960,108.00	884,492.00	1,260,358.00	1,555,985.00
Depreciation	258,452.00	187,830.00	245,234.00	907,087.00	776,202.00
Controller's Office Expence	2,209,466.00	2,506,036.00	3,486,784.00	3,264,891.00	2,995,320.00
Others	1,457,565.00	4,245,353.00	3,743,949.00	6,840,167.00	12,107,306.00
Interest on Capital	1,139,469.00	6,357,902.00	3,437,396.00	4,369,327.00	4,243,069.00
Total Expenditure	**7,361,520.00**	**15,723,454.00**	**14,029,732.00**	**19,342,700.00**	**24,684,881.00**
Net Profit	**1,421,245.00**	**142,240.71**	**481,565.00**	**2,013,891.00**	**3,070,003.00**

Note: The Accounts stated the opening balance of stock in 2008 as 7,180,139 which is not same as closing balance

The combined income statement looks slightly more reasonable as compared to the individual income statements. The reason for this being that in years when Lahore press did poorly the Bhawalpur press did well and vice versa, hence neutralising the dips in performance. The sales have more steadily increased whilst the cost of production has been more variable. A reason for this may be in-appropriate or inconsistent recording of stock and material purchased hence artificially lowering the cost of goods sold.

On the expense side again “others” and “controllers’ office expenses” are the biggest heads. However, it is important to note that on average GPP has charged/covered about Rupees 4 Million in interest on government’s invested capital per annum. Combining the incomes statements the GPP is comfortable covering its costs and generating a net positive profit over its recorded information.

5. Financial Analysis

5.1 Key Financial Numbers for Lahore

The table below shows the key facts and figures of GPP Lahore Press.

Figures in Pak Rs.	2003-04	2004-05	2005-06	2006-07	2007-08
Sales	43,578,259	52,691,535	58,852,278	68,356,826	78,304,379
Other Income	1,028,346	774,198	-	-	2,378,928
Cost of Sales	39,507,967	40,512,990	45,556,378	51,031,341	62,321,929
Gross Profit	4,070,292	12,178,545	13,295,900	17,325,485	15,982,450
Salary Costs	884,024	1,106,225	1,014,078	1,416,678	2,349,875
Running Costs	507,592	576,436	477,294	752,351	945,372
Other Costs	1,407,223	4,175,925	3,743,949	6,840,167	12,107,306
Controllers Office Exp.	1,104,733	1,253,018	1,743,392	1,743,392	1,254,320
Depreciation	108,310	105,603	105,603	824,905	698,711
Interest on Capital	750,636	5,695,272	2,847,636	3,419,771	3,264,660
Benefits & Assistance	-	-	591,122	558,398	-
Estimated Cost to Government for Printing Conducted	43,411,539	47,624,594	53,126,213	62,342,327	78,978,802
Growth in Sales	NA	21%	12%	16%	15%
Growth in Estimated Cost	NA	-9%	-10%	-15%	-21%
PV of Estimated Sales					407,952,999
PV of Estimated Cost					365,738,707
NPV as going concern					42,214,292
Capital	15,012,726	71,190,901	85,494,290	81,616,520	84,027,768
Reciept from other source	84,820,745	52,801,070	25,153,827	32,023,792	54,066,004
Fixed Assets	7,545,460	6,125,230	6,019,627	8,417,635	7,718,924
Current assets	117,030,288	129,592,844	120,959,406	120,112,946	139,589,773
Current liabilities	55,720,847	51,455,785	45,362,514	44,502,814	45,089,716

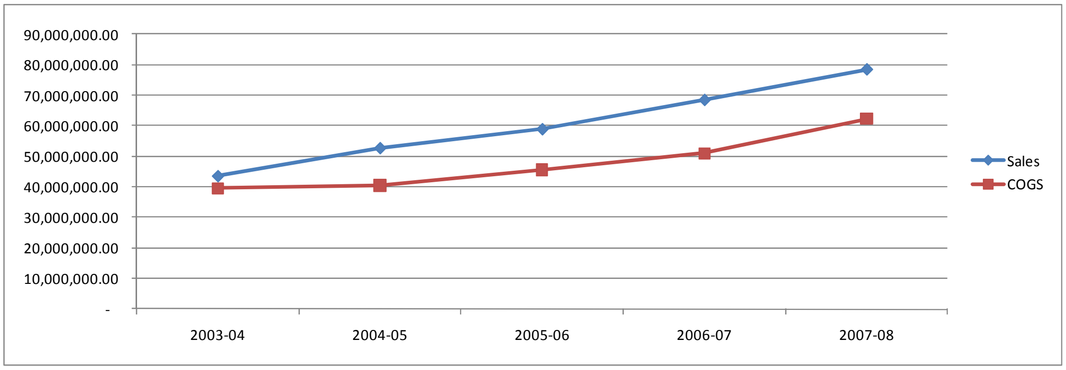
Note: PV of Estimated Sales and Cost is calculated on grwth perpetuity basis

Above figures have been summarised from the financial accounts provided and prepared by GPP. By keeping in view the business process of GPP an estimated cost to government for printing services procured from GPP has been determined. This figure provides an estimate of what government is actually spending to conduct its printing services that are procured from GPP. Similarly based on these cost estimates and growth in sales present value of sales and costs have been calculated by assuming a net capital discount rate of 15%. Based on these calculations the net present value of as going concern comes to around Rs. 42.2 million. However, it must be noted that growth in sales figure is significantly variable whereas the cost figure is progressively rising.

The figures for ‘receipt from other sources’ shows a big hole in the accounting records. According to the auditors this figure represents the paper and material purchased by industries department and provided to GPP. However, the figures are unreasonably high in comparison to the material and paper received from industries. It is believed that this figure is used as a balancing item on the balance sheet and is significantly large due to improper accounting for creditors, debtors and fixed assets. The calculation for capital is also incorrect as it is based on ‘receipt from other sources’ which is non-accountable.

The charts provided below provide a graphic view of some key indicators for GPP-Lahore.

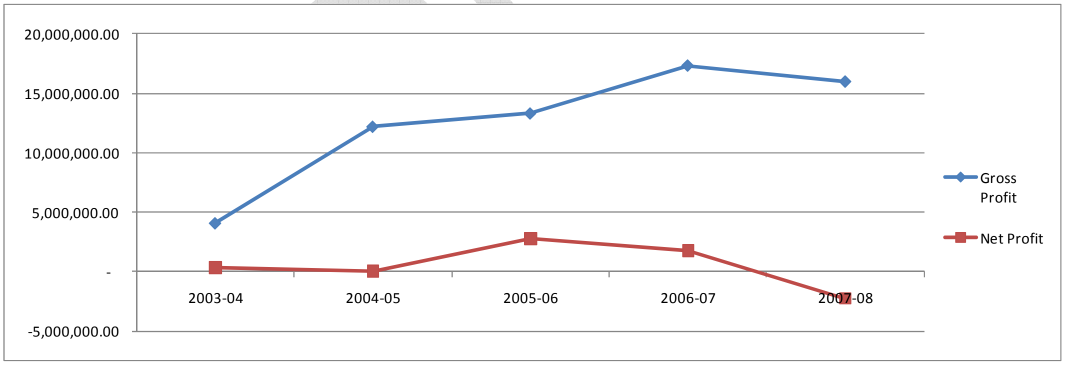
1. Trend of Sales and Cost of Goods Sold



GPP working on an almost constant Gross Profit due to pre determined pricing. As it is clear by looking at the trend that the growth in sales and cost of goods sold is extremely gradual. The cumulative inflation in the paper and printing industry over the last five years has been around 100%, hence this increase is most likely representing the increase in size due to inflation rather than increase in real volumes.

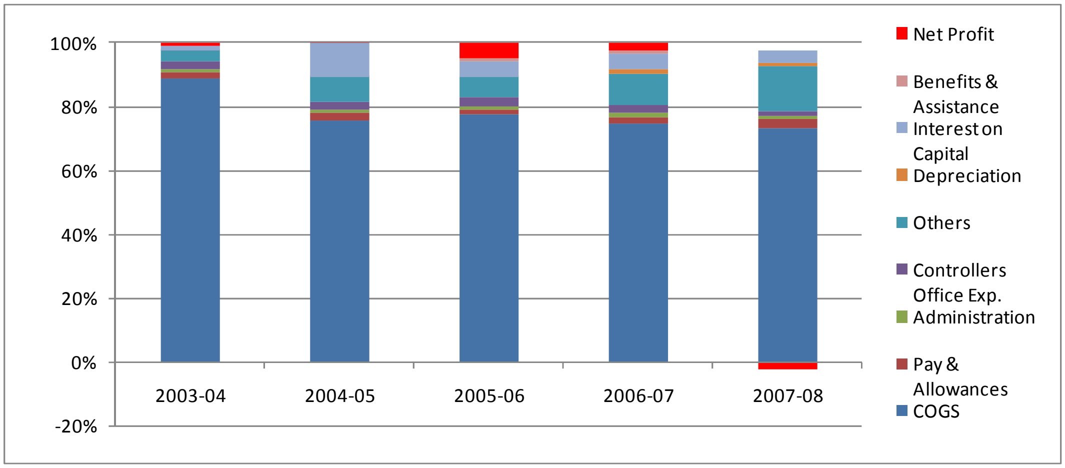
The trends show that the GPP is maintaining a constant gross profit margin over its cost. However, as highlighted earlier the costing approach currently in place uses umbrella calculations, hence profitability per activity cannot be determined.

2. Trend of Gross Profit and Net Profit



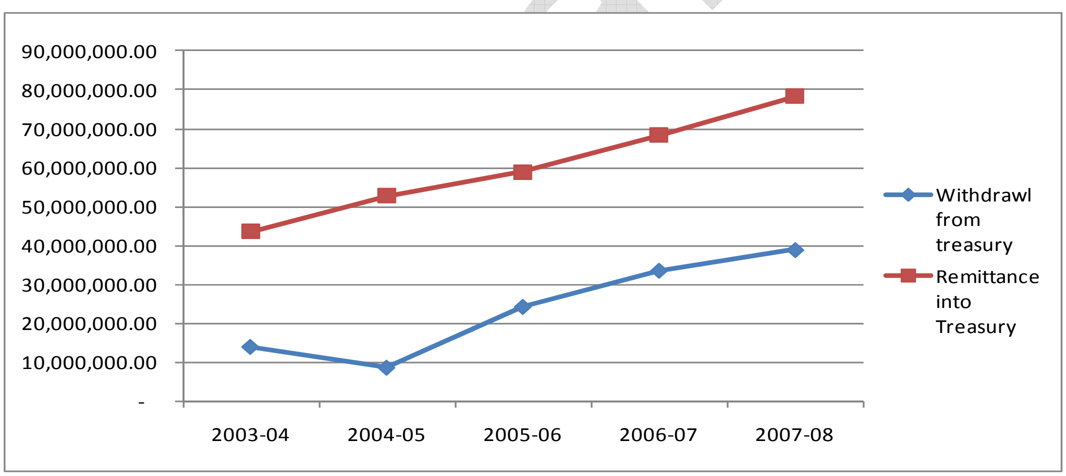
Shows over the years running expense has increased lowering net profitability. In the last financial year (2007-08) GPP-Lahore ran into net losses. However, the accounts show that they were running a profit of Rs. 285 thousand. This was a result of quoting a wrong entry for opening balance of material for 2008. The reported entry was around two million lower than the closing entry and as a result of this correction the value turned negative. The net profit is almost averaging near zero or a few thousands in positive. Most of the variation in gross profit margins has come due to changes in level of stock materials.

3. Percentage Split of Revenue



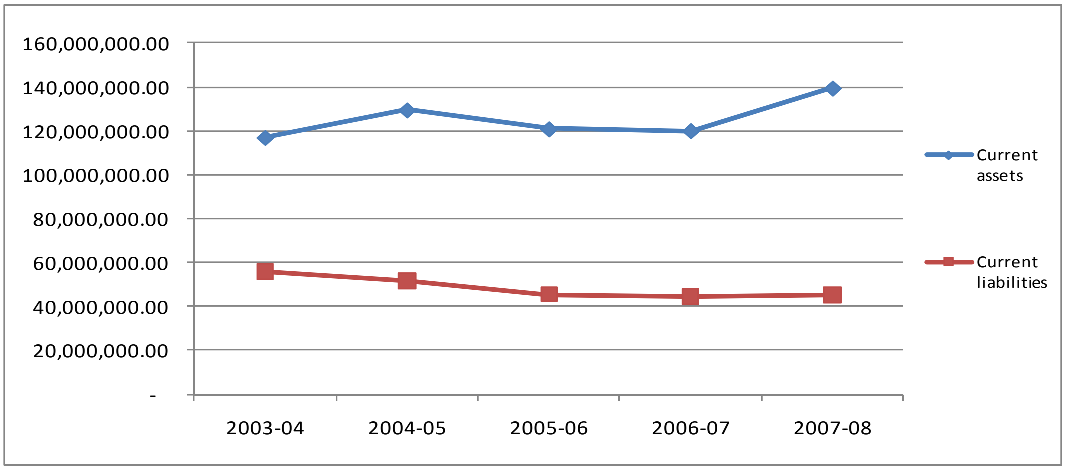
COGS account for around 75% of the usage of sales, other large item is 'others' which is again unaccounted for. The 'others' expense has significantly increased over the last 2 years. The third largest expenditure head is the "expense for controller's office". It is not clear from the accounts and information provided as to where this amount is used as the administration expense also charges salaries of permanent staff and utility expenditure.

4. Withdrawal & Deposit into Treasury



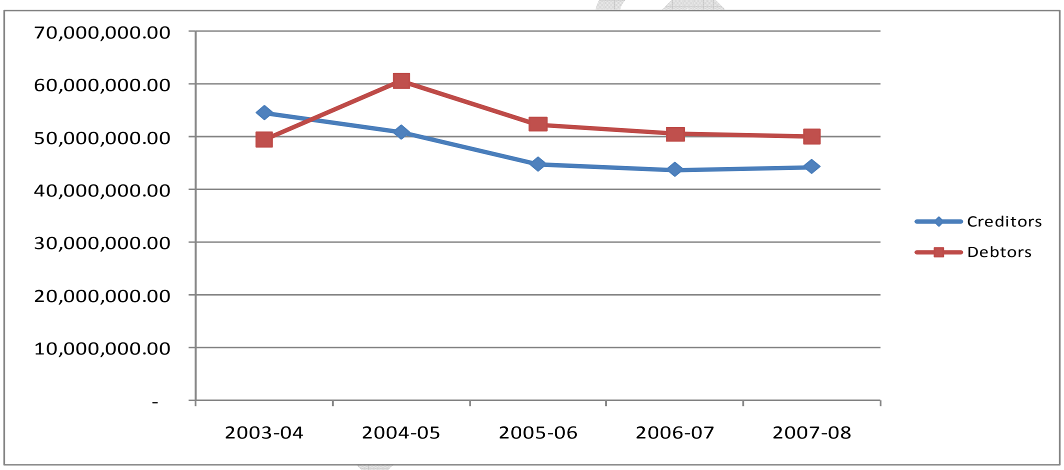
From an outset analysis GPP is comfortably remitting more into treasury than what is being withdrawn. However, these figures do not reflect the transfer of paper and material from industries department. The current balance sheet and financial numbers are not credible enough to read too much into this chart.

5. Current Assets to Current Liabilities



Shows adequate liquidity, however the figures are remarkably static over the years.

6. Creditors to Debtors



Again the liquidity position of GPP remains fairly stable with debtors being greater than creditors. However, given the condition of the accounts, the analysis stated in Ferguson's report and the discussion held with GPP auditors there is little credibility in these numbers. Furthermore, the numbers look artificially high and static.

5.2 Analysis of Financial Numbers – GPP Lahore

1. Summary of Key Ratios

Ratio	Formula used	2003-04	2004-05	2005-06	2006-07	2007-08
Profitability						
Gross Profit Ratio	**Gross Profit / Income**	9.12%	22.78%	22.59%	25.35%	19.81%
Net Profit Ratio	**Net Profit / Income**	0.75%	0.08%	4.71%	2.59%	-2.80%
Return on Assets	**Net Profit after Tax / total Assets**	0.27%	0.03%	2.18%	1.38%	-1.53%
Return on Capital Employed	**Net profit after tax / net worth**	0.47%	0.05%	3.40%	2.11%	-2.21%
Asset Turn Over Ratio	**Sales / average total assets**	101.11%	67.26%	70.44%	82.53%	84.09%
Liquidity						
Net Working Capital	**Current assets - current liabilities**	61,309,441	78,137,059	75,596,892	75,610,132	94,500,057
Current Ratio	**current assets / current liabilittles**	2.10	2.52	2.67	2.70	3.10
Net Working Capital Ratio	**Net working capital / total assets**	48.76%	57.31%	59.53%	58.83%	64.15%
Solvency						
Gearing Ratio	**Lt.liabilities / (Equity+Long term liabilities)**	NA	NA	NA	NA	NA
Borowing Ratio	**Total borrowing / total equity**	NA	NA	NA	NA	NA
Debt to Asset Ratio	**Total borrowings / total equity**	NA	NA	NA	NA	NA
Debt to Equity Ratio	**Total liabilities / equity**	3.71	0.72	0.53	0.55	0.54

The gross profit has averaged at around 20% over the last 5 years. The main reason for this is fixation of chargeable price guidelines by the finance department. As GPP do not indulge in cost based pricing they more or less operate on the constant margins. The figures on net profit margin represent a sharp decline as net profit margin is nearly averaging at 'zero'. The implication of this fall is that most of the gross profit is being eaten up by the expenditure. In expenditure, however, GPP is charging a significant amount of interest payable to government on capital employed. If this interest figure is added back the margins will improve significantly.

The liquidity and solvency ratios are all in comfortable zone as GPP has no loans or debts outstanding. The working capital however has been rising over time representing accumulation in current assets. A large proportion of current assets consist of material stock and work in progress. The validity of the value of currents assets is questionable.

Debt to equity ratio shows that GPP has enough on its balance sheets to pay off its liabilities.

2. Income Statement Ratios

INCOME STATEMENT	2003-04	2004-05	2005-06	2006-07	2007-08
(PKR)					
REVENUE	44,606,605	53,465,733	58,852,278	68,356,826	80,683,307
REVENUE GROWTH	NA	20%	10%	16%	18%
COGS	39,507,967	40,512,990	45,556,378	51,031,341	62,321,929
COGS GROWTH	NA	3%	12%	12%	22%
GROSS PROFIT	4,070,292	12,178,545	13,295,900	17,325,485	15,982,450
GROSS PROFIT GROWTH	NA	199%	9%	30%	-8%
EBIDA*	1,195,066	5,841,139	5,726,065	6,014,499	1,704,505
EBIDA GROWTH	NA	389%	-2%	5%	-72%
NET PROFIT	336,120	40,264	2,772,826	1,769,823	(2,258,866)
***As a gov't entity, GPP does not pay any taxes**					
MARGINS (as a % of Revenue)					
GROSS PROFIT	9%	23%	23%	25%	20%
COGS	89%	76%	77%	75%	77%
EBIDA	3%	11%	10%	9%	2%
PROFIT	1%	0%	5%	3%	-3%
Days Outstanding					
Receiveables	49,546,490	60,662,894	52,387,455	50,578,340	50,090,462
Sales	43,578,259	52,691,535	58,852,278	68,356,826	78,304,379
360	365	365	365	365	365
Days Outstanding	415.0	420.2	324.9	270.1	233.5
Days Outstanding					
Creditors	55,720,847	51,455,785	45,362,514	44,502,814	45,089,716
Sales	44,606,605	53,465,733	58,852,278	68,356,826	80,683,307
360	365	365	365	365	365
Days Outstanding	455.9	351.3	281.3	237.6	204.0

Note: There was an error in 2007-08 accounts which underestimated the COGS by Rs. 2.5 Million and hence reported a profit. However, in the table above the corrected figures have been used which reflect a net loss for the year 2007-08.

The figures represent reasonable revenue growth however if we account for paper inflation the real impact will be minimal. The price of paper has almost doubled in the last 5 years[3]. So the cumulative growth of around 65% in the revenue is merely covering the rise in prices and costs. This statement can be further qualified by looking at net profit margins which are averaging at almost zero and gross margins just hovering in the region of 20%. The EBIDA figures are reasonable and represent that GPP is generating enough income to maintain itself.

The outstanding days of debtors and creditors are showing unusual results with significantly large number of days for outstanding balances. Although the numbers of days have declined over the years the time lag for making

[3] Based on market rates and information. Plain A4 paper prices have doubled in the last five years.

payments and realising payments is still sub-optimal. This may be just because of inaccurate and incomplete accounting for creditors and debtors.

The above figures confirm that GPP is currently carrying its load although the administration expense is reaching at the level similar to the gross profit. And the most recent year recorded a loss of around Rs. 2 Million.

3. Balance Sheet Ratios

RATIO ANALYSIS *(PKR)*	2003-04	2004-05	2005-06	2006-07	2007-08
CURRENT RATIO					
Current Assets	117,030,288	129,592,844	120,959,406	120,112,946	139,589,773
Current Liabilities	55,720,847	51,455,785	45,362,514	44,502,814	45,089,716
Ratio	2.10	2.52	2.67	2.70	3.10
RETURN ON ASSETS					
BEG TOTAL ASSETS	91,049,663	125,743,748	136,334,074	126,979,033	128,530,581
END TOTAL ASSETS	125,743,748	136,334,074	126,979,033	128,530,581	147,308,697
AVE TOTAL ASSETS	108,396,706	131,038,911	131,656,554	127,754,807	137,919,639
	0%	0%	2%	1%	-2%
* Does not include land					
RETURN ON CAPITAL					
BEGINNING EQUITY	15,012,726	71,190,901	85,494,289	81,616,519	84,027,767
ENDING EQUITY	71,190,901	85,494,289	81,616,519	84,027,767	102,218,981
AVERAGE EQUITY	43,101,814	78,342,595	83,555,404	82,822,143	93,123,374
RETURN ON CAPITAL	1%	0%	3%	2%	-2%
INTEREST ON CAPITAL	750,636	5,695,272	2,847,636	3,419,771	3,264,660
ROC INCL'D INTEREST	3%	7%	7%	6%	1%
CAPACITY RATIOS					
BEG MATERIAL STOCK	57,105,775	57,105,775	54,296,551	55,689,780	44,878,227
END MATERIAL STOCK	57,105,775	54,296,551	55,689,780	44,878,227	41,790,011
AVERAGE MATERIAL STOCK	57,105,775	55,701,163	54,993,166	50,284,004	43,334,119
MATERIAL USED	29,072,096	28,486,705	25,431,374	43,854,554	69,353,608
UTILISATION AVERAGE	**50.91%**	**51.14%**	**46.24%**	**87.21%**	**160.04%**
Debtors to Sales					
Sales	43,578,259	52,691,535	58,852,278	68,356,826	78,304,379
Debtors	49,546,490	60,662,894	52,387,455	50,578,340	50,090,462
Ratio	114%	115%	89%	74%	64%

The liquidity position is exceptionally strong with current assets being three times greater than current liabilities. However as pointed out earlier in the report these assets represent static value of material stock and work in progress.

Return on assets employed is almost negligible due to low net profits and extremely large current assets.

Return on capital is again low if net profit is used, however, if the interest charged on capital (technically the payoff on capital) is taken account for the return of capital employed improves slightly. However, given the current market discount rates are 15-20% for SME businesses the return figures above are not adequate.

GPP has often complained about lack of material to carry out required jobs. However, their accounts shows significant amount of unutilised material year after year. On top of this they have also recorded significant amount of work in progress on their balance sheets. Both these entries negate the claim that they are short of working capital. As shown above, except for the last year the utilisation has been significantly low. Based on the information recorded in the financial accounts it is not possible to calculate the idle capacity of GPP, however it is reasonable to state based on their material utilisations that it will be less than 50%.

GPP is running at very low margins in terms of return on assets and return on capital employed. However, based on the inconsistencies and errors in the accounting system it is very likely the both the assets figure and the capital employed are over stated. If this were to be the case the return of assets and capital will improve significantly.

5.3 Key Financial Numbers for Bahawalpur

The table below shows the key facts and figures of GPP Lahore Press.

Figures in Pak Rs.	2003-04	2004-05	2005-06	2006-07	2007-08
Sales	12,249,202	9,647,328	9,524,653	11,414,026	16,121,945
Other Income	-	-	-	-	-
Cost of Sales	8,565,075	6,734,376	8,309,256	7,382,920	6,728,439
Gross Profit	3,684,127	2,912,952	1,215,397	4,031,106	9,393,506
Salary Costs	334,773	360,000	437,949	472,858	657,124
Running Costs	348,789	383,672	407,198	508,007	610,613
Other Costs	50,342	69,428	-	-	-
Controllers Office Exp.	1,104,733	1,253,018	1,743,392	1,521,499	1,741,000
Depreciation	150,142	82,227	139,631	82,182	77,491
Interest on Capital	388,833	662,630	589,760	949,556	978,409
Benefits & Assistance	221,390	-	188,728	252,936	-
Net Profit	1,085,125	101,977	(2,291,261)	244,068	5,328,869
Estimated Cost to Government for Printing Conducted	9,720,150	8,056,822	10,052,648	8,904,419	8,469,439
Growth in Sales	0%	-17%	25%	-11%	-5%
Growth in Estimated Cost	0%	-21%	-1%	20%	41%
PV of Estimated Sales					**78,609,539**
PV of Estimated Cost					**53,180,562**
NPV as going concern					**25,428,976**
Capital	5,097,171	11,795,201	18,991,121	19,568,175	22,693,835
Fixed Assets	1,121,609	1,106,352	1,016,661	943,857	896,526
Current assets	11,090,387	15,997,853	20,250,317	19,761,054	24,701,436
Current liabilities	3,080,695	1,242,647	1,611,903	422,782	2,140,173

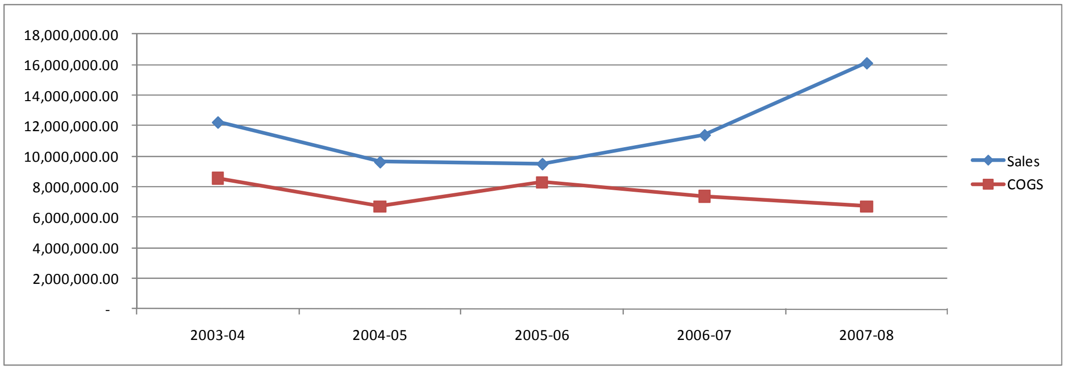
Note: PV of Estimated Sales and Cost is calculated on grwth perpetuity basis

Above figures have been summarised from the financial accounts provided and prepared by GPP-Bahawalpur. By keeping in view the business process of GPP an estimated cost to government for printing services procured from GPP has been determined. This figure provides an estimate of what government is actually spending to conduct its printing services that are procured from GPP. Similarly based on these cost estimates and growth in sales present value of sales and costs have been calculated by assuming a net capital discount rate of 15%. Based on these calculations the net present value of as going concern comes to around Rs. 25.4 million. However, it must be noted that growth in sales figure as well as the cost figure is extremely variable with large positive and negative swings.

The calculation for capital is also inconsistent over the years and hence cannot be trusted. The figures stated in the table above are different from those in the accounts as corrections have been made.

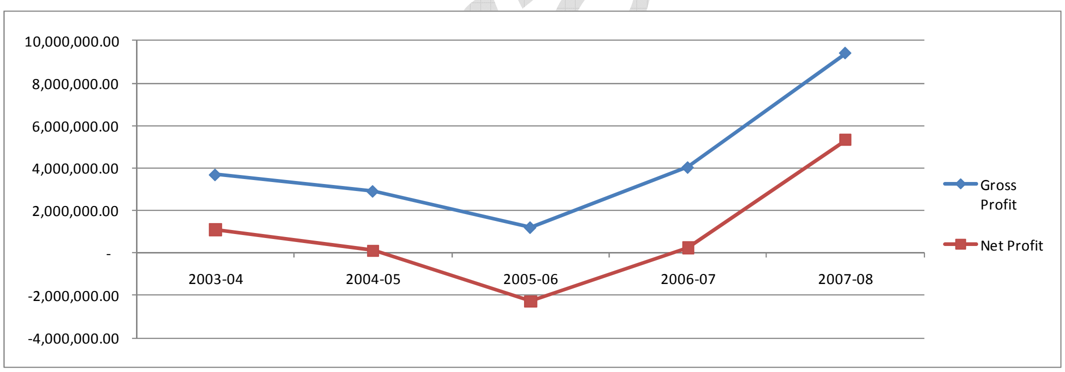
The charts provided below provide a graphic view of some key indicators for GPP-Lahore.

1. Trend of Sales and Cost of Goods Sold



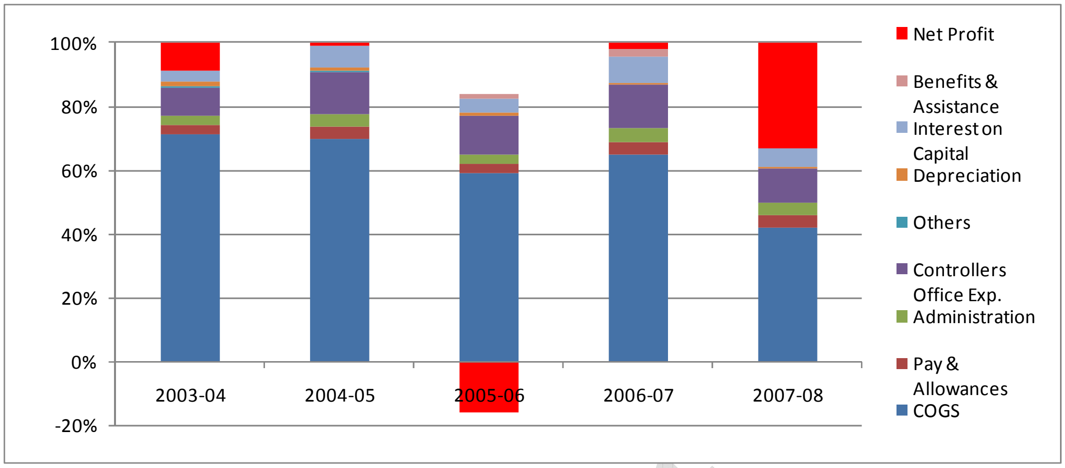
The trend is much more variable as compared with Lahore, however recently the margin has increased. This behaviour is a result of changing vales of closing stock. In year the value of closing stock is relatively high the gross margins have suddenly shot up. Furthermore, the last year sales figure and cost of goods sold do not reflect the trend over the last four years. The data represents a massive increase in sales and a reduction in COGS. This could also be a result of some accounting manipulation as records are highly inconsistent.

2. Trend of Gross Profit and Net Profit



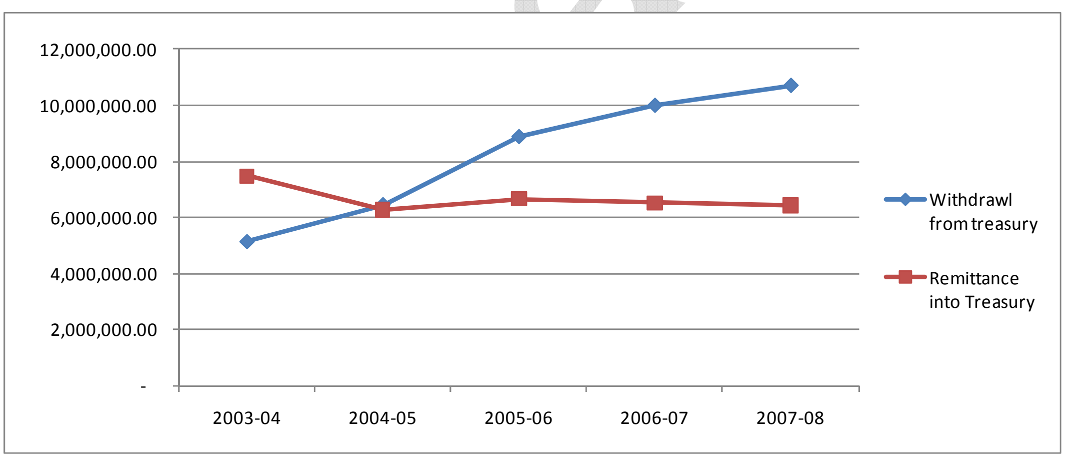
The trends shows that the expenditure have remained fairly stable over time, hence, resulting in a consistent differential between the net and gross profit trends.

3. Percentage Split of Revenue



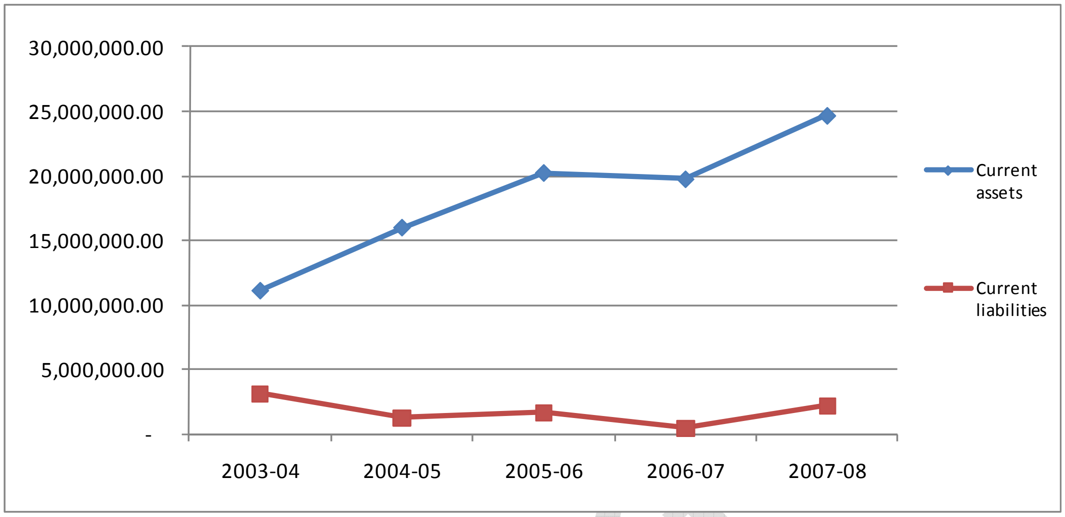
COGS on average account for around 55% of the usage of sales, other large item is 'controllers share' which is again unaccounted for. The 'others' expense has significant increased over the last 2 years. The third largest use is the interest that is charged on capital. Profit has been variable.

4. Withdrawal & Deposit into Treasury



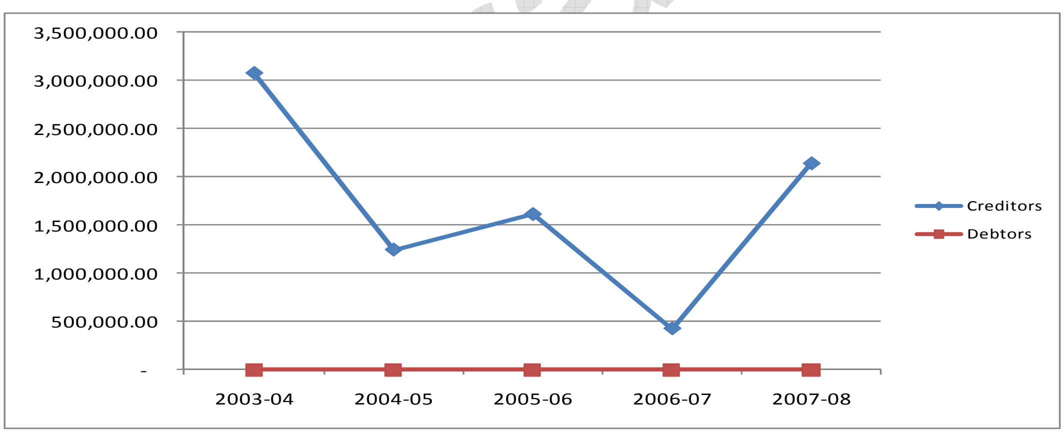
Withdrawals have been greater than deposits into treasury – and remittance figures are considerably lower than sales and no debtors exist so data is inconsistent.

5. Current Assets to Current Liabilities



Shows adequate liquidity, however the resultant increase in current assets over the years is due to higher value of work in progress, finished goods stocks and high values of unutilised material.

6. Creditors to Debtors



5.4 Analysis of Financial Numbers – Bahawalpur

1. Key Financial Ratios

Ratio	Formula used	2003-04	2004-05	2005-06	2006-07	2007-08
Profitability						
Gross Profit Ratio	Gross Profit / Income	30.08%	30.19%	12.76%	35.32%	58.27%
Net Profit Ratio	Net Profit / Income	8.86%	1.06%	-24.06%	2.14%	33.05%
Return on Assets	Net Profit after Tax / total Assets	9.89%	0.70%	-11.94%	1.16%	23.02%
Return on Capital Employed	Net profit after tax / net worth	27.56%	1.21%	-14.88%	1.27%	25.22%
Asset Turn Over Ratio	Sales / average total assets	111.63%	65.82%	49.64%	54.39%	69.64%
Liquidity						
Net Working Capital	Current assets - current liabilities	4,872,571	10,602,156	14,639,855	15,360,635	17,101,077
Current Ratio	current assets / current liabilitties	2.58	9.53	10.08	37.33	8.99
Net Working Capital Ratio	Net working capital / total assets	44.40%	72.33%	76.31%	73.19%	73.87%
Solvency						
Gearing Ratio	Lt.liabilities / (Equity+Long term liabilities)	NA	NA	NA	NA	NA
Borowing Ratio	Total borrowing / total equity	NA	NA	NA	NA	NA
Debt to Asset Ratio	Total borrowings / total equity	NA	NA	NA	NA	NA
Debt to Equity Ratio	Total liabilities / equity	0.78	0.15	0.10	0.02	0.10

The Bahawalpur press is much more profitable as compared with Lahore both in terms of generating high returns on assets employed and capital. Similarly to GPP Lahore the press has adequate capital cover to maintain its work. The liquidity position is extremely strong as there are no outstanding debts.

2. Income Statement Ratios

INCOME STATEMENT (PKR)	2003-04	2004-05	2005-06	2006-07	2007-08
REVENUE	12,249,202	9,647,328	9,524,653	11,414,026	16,121,945
REVENUE GROWTH	NA	-21%	-1%	20%	41%
COGS	8,565,075	6,734,376	8,309,256	7,382,920	6,728,439
COGS GROWTH	NA	-21%	23%	-11%	-9%
GROSS PROFIT	3,684,127	2,912,952	1,215,397	4,031,106	9,393,506
GROSS PROFIT GROWTH	NA	-21%	-58%	232%	133%
EBIDA*	1,624,100	846,834	-1,561,870	1,275,806	6,384,769
EBIDA GROWTH	NA	-48%	-284%	NA	400%
NET PROFIT	1,085,125	101,977	(2,291,261)	244,068	5,328,869
MARGINS (as a % of Revenue)					
GROSS PROFIT	30%	30%	13%	35%	58%
COGS	70%	70%	87%	65%	42%
EBIDA	13%	9%	-16%	11%	40%
PROFIT	9%	1%	-24%	2%	33%
Days Outstanding					
Receiveables	-	-	-	-	-
Sales	12,249,202	9,647,328	9,524,653	11,414,026	16,121,945
360	365	365	365	365	365
Days Outstanding	-	-	-	-	-
Days Outstanding					
Creditors	3,080,695	1,242,647	1,611,903	422,782	2,140,173
Sales	12,249,202	9,647,328	9,524,653	11,414,026	16,121,945
360	365	365	365	365	365
Days Outstanding	91.8	47.0	61.8	13.5	48.5

The profit margins and returns are higher as compared to GPP Lahore, however the trends are much more variable. EBITDA is also significant and reaching up to 40 in 2008. However, as highlighted earlier in the report the figures are 2008 are extremely different to other years and show a significant profit due to high stock end value which has lowered the cost of goods sold. This entry will reduce profit significantly in 2009. It is also evidenced in the table above that in 2008 the cost of goods sold only represented 42% of the usage of income, whereas in previous years it was averaging at around 70%.

3. Balance Sheet Ratios

RATIO ANALYSIS (PKR)	2003-04	2004-05	2005-06	2006-07	2007-08
CURRENT RATIO					
Current Assets	7,953,266	11,844,803	16,251,758	15,783,417	19,241,250
Current Liabilities	3,080,695	1,242,647	1,611,903	422,782	2,140,173
Ratio	2.58	9.53	10.08	37.33	8.99
RETURN ON ASSETS					
BEG TOTAL ASSETS	9,734,986	12,211,996	17,104,205	21,266,978	20,704,911
END TOTAL ASSETS	12,211,996	17,104,205	21,266,978	20,704,911	25,597,962
AVE TOTAL ASSETS	10,973,491	14,658,101	19,185,592	20,985,945	23,151,437
ROA	10%	1%	-12%	1%	23%
* Does not include land					
RETURN ON CAPITAL					
BEGINNING EQUITY	2,777,383	5,097,171	11,795,201	18,991,121	19,568,175
ENDING EQUITY	5,097,171	11,795,201	18,991,121	19,568,175	22,693,835
AVERAGE EQUITY	3,937,277	8,446,186	15,393,161	19,279,648	21,131,005
RETURN ON CAPITAL	28%	1%	-15%	1%	25%
INTEREST ON CAPITAL	388,833	662,630	589,760	949,556	978,409
ROC INCL'D INTEREST	37%	9%	-11%	6%	30%
CAPACITY RATIOS					
BEG MATERIAL STOCK	6,474,416	7,549,715	10,602,201	12,829,058	14,184,502
END MATERIAL STOCK	7,549,715	10,602,201	12,829,058	14,184,502	18,020,250
AVERAGE MATERIAL STOCK	7,012,066	9,075,958	11,715,630	13,506,780	16,102,376
MATERIAL USED	5,246,082	3,406,733	4,454,034	3,903,345	3,038,806
UTILISATION AVERAGE	**74.82%**	**37.54%**	**38.02%**	**28.90%**	**18.87%**
Debtors to Sales					
Sales	12,249,202	9,647,328	9,524,653	11,414,026	16,121,945
Debtors	-	-	-	-	-
Ratio	NA	NA	NA	NA	NA

The major issue here is capacity utilization. The Press is maintaining high levels of material stock and hence not utilising its full potential. The remaining ratios on the balance sheet are reasonably well set.

Based on the information provided whereas GPP has historically been able to cover its costs is running on low levels of profitability, although the Bahawalpur press is slightly more profitable. The financial viability is limited due to the very nature of GPP where the government is the client and the government is the owner deciding on what to charge for goods produced. The return of assets would be even lower if the land being used by GPP is taken into account. GPP originally had around 92 Kanals of land under its processions. The market value of that land is significant due to its prime location. However, recently almost 61 Kanals of this land has been transferred to the Judiciary department. This would have reduced the opportunity cost of maintaining GPP.

The accounts being prepared by GPP are seriously flawed especially the entries made on the balance sheet. Specific problems are that balancing errors are as large as total sales figures, the creditors and debtors change inconsistently and remain extremely high as compared to the level of sales. The material stock is some years have been higher than recorded sales yet GPP on several occasions have complained about lack of working material.

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6. Cost Benefit Analysis

GPP currently offers printing services to all the departments of government of Punjab. A detailed economic cost benefit analysis is beyond the scope of this project, however a brief cost and benefit analysis is provided based on the financial information provided by GPP.

Using the information provided it is estimated that on average GPP printing costs the government around Rupees 55 Million. This figure takes into account that given the nature of the business of GPP the difference between sales and this cost goes back to the government in any case. It is imperative that one should compare the cost of printing at GPP by taking a cost approach and not sales price charged to the client departments. In other words the net drain on treasury of the Punjab Government is around Rs. 55 Million a year in return of all the printing that is done by GPP. However, this analysis stays incomplete as there was no ready information available on the total volume of printing done by GPP. If the volume was available one could easily divide Rs. 55 Million by the volume to get an average price that government pays for its printing.

The other major cost of GPP is the 31 kanal of prime land that it occupies in Lahore. This cost has somewhat reduced as the original land holding was around 100 Kanals. Given in actual terms GPP is just a cost centre providing printing services the opportunity cost of land should be carefully evaluated.

GPP (Lahore and Bahawalpur) accounts show that their average asset holding is around Rs. 210 Million at Book Value. If these assets were to be sold off at book value and the proceeds kept in an interest bearing account it would yield around Rs 30 million a year. This figure is almost 50% of the total services that GPP offers to the government. However, the caveat here is that most likely the accounts are not maintaining accurate record of real assets and it may be a case where these assets are significantly over stated. In such a scenario this cost would be low.

Government is also maintaining a capital interest in GPP with average invested capital in the region of Rs. 110 Million. If this capital was to be withdrawn and again placed in an interest bearing account it would yield a minimum of Rs. 12/13 Million a year.

In terms of all the assets involved GPP on average costs the government somewhere between Rs.50-100 Million a year. This amount is a tiny fraction of the overall budget of the Punjab Government.

On the benefits side GPP potentially offers two major benefits, (i) urgent government printing especially the provincial budget and (ii) secret printing work of the government. The second element is not as important as under formal contracts and reasonable checks and balances one can maintain secrecy within the private sector as well. However, the benefit of GPP being able to provide last minute urgent support cannot be discounted. GPP offers the government the option to conduct any amount of printing without being pressurised or taken advantage off. It is impossible to put a numeric value on the benefit that GPP can provide in attending to urgent and priority needs of the government.

7. Conclusion & Recommendation

Based on the financial numbers of GPP and arguments made in the above section it can be concluded that financial viability of GPP is very small aspect of any decision that the government intends to take about GPP. A decision to close off continue with GPP would require a broader consensus between the key decision makers. The financial analysis suggests that GPP is viable in isolation but suffers from inadequate governance, lack of controls hence operates at lower efficiency as compared to the private sector. **The end recommendation of the report is that government should seriously consider revaluation and liquidation of GPP.** This area has also been identified in the Ferguson's report **(A review covering findings, recommendations and strengths and weaknesses of the Ferguson's report is provided at Appendix C to this report)**. However, the analysis of GPP must be read with the understanding that GPP's business model is not designed to be competitive or profit driven. The basic model of GPP is to provide printing services to the government, on requests made by the government and prices being fixed by the government. The only emphasis should be on governance and efficient utilisation of resources. The financial numbers above do reflect that GPP is weak in controlling its costs and optimising the use of its resources. The key conclusion for the above analysis can be summarised by the following highlights:

- Financial accounting of GPP is very poor and unreliable. At times closing and opening balances for a FY are dissimilar.
- Both the sales and cost of sales have been steadily increasing at almost the same pace for both presses , however, this increase is even less than the rate of inflation in paper. This suggests that the volume of work has gradually diminished.
- The net profitability of both the presses (Lahore and Bahawalpur) is significantly dependent on the value of closing stocks of material. In years where the closing stock value is very high the gross and net profit has been much higher. This raises a big question on the profits figures being generated. Based on the in-depth analysis of the accounting systems and controls in Ferguson report and the findings under the current project the balance sheet accounting in extremely inconsistent and lack explanation of various entries. The Ferguson's report also found that the inventory systems are pretty weak and inadequate. As a result the stock figures may or may not represent the actual stock. There is a danger that in such a case profits figure may be artificially inflated**. A simple sensitivity calculation suggests that on average a 1% overstatement in closing balance will inflate profits by 17%.**
- The expenditure items are pretty reasonable and do not reflect any major detractors. However, relatively more expenditure is being conducted under the head of "others" and "Controller's office expense". These expenses need to be curtailed or explicitly explained.

- The balance sheet calculations are inconsistent with overlapping entries. The amount of capital calculated each year includes an entry named 'receipt from other sources' for which no justification has been provided or exists in any other part of the financial statements. This entry in some years is even larger than sales recorded for that period. This capital calculation on the balance sheet needs to be fixed to represent the actual equity/employment of government resources. The income statement also charges interest on the capital engaged and if the figure for capital is under or over stated the error will also trickle down in the income statement affecting net profitability.
- The creditors and debtors figures, especially for GPP Lahore are extremely high and in some cases almost equalling the value of sales. The other notable element is that these numbers are remarkably static over the years which raises a question or confirms the statement made in Ferguson's report on incomplete and inadequate financial record keeping capacity.
- Finally the assets on the balance sheet are almost at their scrap value as most of the machines are now over 20 years old. However, the market value of these machines is significantly high as compared to the scrap value. Due to low asset value the return on capital is probably overestimated as shown by the ratios above. Furthermore, the assets do not include the value of land in its assets schedule.

To improve governance and management following recommendations are being made:

1. Preparation of proper double entry accounting heads and audit of last three years accounts to eliminate all the errors in the accounting procedures and records. Capacity building of GPP Staff to understand the financial management is also required to ensure efficient allocation of resources. If GPP is left on its own the validity of its records may become more questionable and so would the cost that the government is bearing for the printing services. Under current analysis the main area of concern is that GPP is losing significant efficiency due to inadequate and improper management of it assets and putting strong financial disciplines in place.
2. Revaluation of all assets and incorporating the value of land on the balance sheet. This will also provide the government with an opportunity to analyse the true economic cost of retaining GPP. This economic cost may come out be significantly higher than what has been reported in the financial numbers above.

The above actions will assist the government in making a more informed decision whether to continue with GPP or not. However, as concluded in the Ferguson's report and also confirmed by the financial analysis that GPP cannot compete with the private sector printing services due to weak monitoring on resources, little governance, weak financial controls and measures and above all little autonomy to operate as a private sector business. Based on the previous work on GPP and the current analysis the following recommendation is being made as the preferred option:

1. It is quite clear that GPP is not financially profitable and viability is also questionable due to profit levels being highly sensitive to closing stock value. As reported earlier a 1% correction in closing stock will reduce profits by around 17%. There is no evidence that GPP offers a better quality or cheaper printing facility to the government. The private sector printing industry is extremely competitive keeping printing rates at reasonable profit margins. The stagnancy/low growth in sales suggests that over time the volume of work at GPP is on a downward trend. The secrecy argument was explored in the Ferguson's report, however, is a weak argument given government can enforce secrecy agreements through contracts. Finally, GPP is just an extra administrative head under the industries department eating up time and other resources whilst failing to provide much economic benefit.

   Based on above discussion it is recommend that government must seriously consider winding down GPP after revaluating all its assets and stocks as discussed above. This will be prudent decision in smart sizing the structure of government and reducing the administrative burdens on key departments.

Appendix A: Approved Financial Statements

Appendix B: SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
➢ **Committed leadership** ➢ **Significant capacity to print large jobs** ➢ **Dedicated printing services available to the government at all times** ➢ **Maintenance of historic government records** ➢ **Free printing services for the government** ➢ **Staff motivated to justify their employability and existence**	➢ Not being managed as a commercial entity ➢ Fixed line budgets and availability of capital ➢ Non-cash transactions ➢ Inadequate answerability ➢ Inadequate management and operational controls ➢ No incentive to outperform ➢ High levels of wastage ➢ Inadequate skill of workers ➢ Cannot compete with private sector as not allowed to purchase second hand machinery	➢ Lot of unutilised / idle capacity ➢ Possibility of attracting private sector investment if government decides to sell off or go into a PPP	➢ Closure of GPP ➢ Government approving projects to let GPP purchase new machines but to do not increase the working capital ➢ Low Book value of machines may invite rent seeking behaviour by private sector in negotiating a PPP

Appendix C: Review of the Ferguson's Report on GPP

8. Introduction

This section provides a review of the report done by Ferguson's on GPP. The purpose of this section is not to critique the work done by Ferguson but in-fact is to provide a quick overview and identify the strengths and weaknesses in terms of the utility of the report. This review is not based on deliverables against TORs but to measure the effectiveness for achieving the conceived outcome for GPP.

8.1 Objective

The main objective of the Ferguson Report was to conduct an in-depth analysis of the operations of GPP, evaluation of its necessity and recommendation of alternatives or reforms for revamping of GPP to make it more efficient and productive. The work done by Ferguson was expected to encompass the assessment of financial and operational efficiency with the view of recommending an implementable future course also considering the options to liquidate/privatise or restructure GPP.

The Key terms of reference for the Ferguson report were:

- *Make the assessment of the assets and performance of GPP, in terms of financial and service provision efficiency, in comparison to (similar) private printing press*
- *Evaluate the necessity or otherwise of having a government-owned enterprise for doing government printing work and in the light of the evaluation, propose future course of action, which could either be liquation/privatisation/or restructuring as a public sector entity*
- *Suggest options for undertaking government printing work ensuring secrecy and speed*
- *Suggest an action plan, complete with specific timelines, costing and change management procedures, for putting the recommended strategy into operation.*

The overall project outcome was to enhance the efficiency of GPP affairs to improve financial prudence and cost to the government.

8.2 Report Summary

8.2.1.1 Diagnostics

The diagnostic methodology applied by the Ferguson report looked at the following aspects:

- **Regulatory Framework:** This section of the report laid out the basic guidelines and parameters that GPP has to follow to deliver its printing services in line with the procedures of the government. The important areas under this aspect were the restriction on GPP to do private or semi-private work and the fixation of the sale price by the government. ***<u>Both these elements are also important from a financial viability angle as such restriction will lead to lack of opportunities and no incentive to increase profit margins or control costs.</u>***
- **Business Process Analysis:** This section of the report simply maps out the processes and procedures followed by GPP for procurement, production,

costing, billing, sales, dispatched and stores. ***<u>It is important to highlight the report only did a mapping exercise and not an analysis of the processes, for example a comparison of processes with other printing presses may have been useful to identify gaps or to reduce extra procedures without compromising on the due diligence.</u>***

- **Operational Analysis:** This section of the report provided a set of key performance indicators based on which Ferguson was to conduct an efficiency analysis of GPP. The agreed KPI's included:
    - *Actual production as compared to normal/standard production capacity*
    - *Percentage utilization of available capacity in machine hours*
    - *Average number of units produced per machine hour*
    - *Labour cost as a percentage of total cost of production*
    - *Overhead cost as percentage of total cost of production*
    - *Number of orders reworked in comparison with total work orders completed*
    - *Number of NOCs issued due to capacity/time/technology constraints*
    - *Actual wastage as compared to normal/standard wastage*
    - *Number of work orders rejected as compared to total work orders delivered*
    - *Number of work orders delayed as compared to total work orders delivered*

  <u>The Ferguson team showed their inability to calculate any of these performance indicators owing to incomplete and inappropriate record keeping by GPP.</u>

  This section also listed out some jobs that were massively delayed by GPP. However, the report failed to mention forcefully that this delay is not normally due to inefficiency but **'priority'** work superseding the nor routine work. ***<u>Ferguson's report did not acknowledge the fact that GPP has limited control over its decisions and processes and is bound to prioritise work based on the direction of the government. The report does mention that all the priority work was delivered on time. This highlights the fact that significant operational inefficiency of GPP may be due to lack of autonomy.</u>***

  It was also reported that in 2005-06 GPP only catered for 25% of the total printing work procured by the Punjab Government. The report showed its inability to calculate or analyse the overall working capacity of the press and to provide an estimate of idle capacity.

  It was also reported that GPP has inadequate systems and processes to ensure due diligence for government's secret work and quality control.

- **Financial Analysis:** This section lists the accounting procedure used by GPP to record its affairs. It correctly points out in this section that financial accounting capacity in GPP is significantly weak and several inconsistencies are present in their reported numbers. Furthermore, the section has listed out the accounts provided by GPP highlighting some errors in the accounts.

- **Comparison with Similar Other Presses:** This section listed the working of the Printing Corporation of Pakistan (PCP) and concluded that on functional side both presses were quite similar, however, the PCP had much more autonomy in-terms of operational activities and also maintains formal audited accounts and proper record keeping. The section did not provide any meaningful comparison with the presses being run in the private sector except confirming that the printing technology being used by GPP was similar to private sector.

- **Necessity of a Government owned Printing Press:** It is very difficult to conclude any meaningful result from this section of the report. Although this element was part of the TORs for Ferguson the methodology that was used was incapable of proving a meaningful answer to this element. This element would have required a detailed discussion with key decision makers and an in-depth economic cost benefit analysis and scenario building. ***GPP is only providing services to the government so in a sense is not a public good. It is a tool to provide a reliable service to the government in order they an meet their urgent printing requirement. The cost benefit section) above highlights some direction that can assist decision makers to retain or let go of GPP.***

8.3 Key Recommendations

The main recommendations made by the Ferguson Report are presented below:

- GPP should undergo a separate exercise to prepare more reliable and proper financial information so that meaningful estimates of the costs can be deduced.
- In view that 75% of the public sector printing work is being done by private presses the argument to have government owned press is weak
- If the secret printing argument is still valid then GPP should be retained, however, restructuring will be required to improve efficiency
- The way forward for the government could be either retain GPP if 'secrecy' is a valid argument or government should exit through privatisation or liquidation.

8.4 Strengths & Weaknesses of the Ferguson Report

This section provides a broad utility of the report to key decision makers. It is not a critique or judgement of the work done by Ferguson's which should be benchmarked against their TORs.

8.4.1 Strengths

The report is very strong in terms of its mapping exercise for GPP. It brings together a lot of useful information concerning GPP which highlights the working of the process. The report provides a detailed map of how everyday business is managed at the press. The reporting procedures, work processes, dispatching and storing of work is clearly marked.

It also provides basic gaps in terms of quality control issues, due diligence to maintain secrecy of government work and some examples of significant delays in work being carried out. Another strength of the report is that it lists all the assets that are in procession of GPP and also lays down the financial accounts. It has picked up several errors and omissions in the accounts. The financial figures quoted on accounts were double checked with receipts at the treasury and several discrepancies were reported. This highlights the lack of financial control within the organisation.

The report also provides issues with costing and lack of information that is available with GPP. The report provides an informing document to the government clearly highlighting that reform at GPP will result in some improvement. It provides some stakeholder views on their usage of GPP as a preferred place for their printing jobs.

The report also provides a brief logical step by step procedure if the government intends to liquidate or privatise GPP. Overall, the report covers all aspects of the workings of GPP and correctly identifies the key problematic areas which include inadequate financial management, weak processes and little due diligence.

8.4.2 Weaknesses

On the other hand there are several questions that the Ferguson report is not able to answer. It is again noted that this not a critique of the quality or quantity of work done by Ferguson but cover issues that a decision maker may be interested in whilst making a decision of future course of action for GPP.

The report only provides a mapping of the business processes at GPP. It does not provide initiatives or changes that are required to improve the efficiency of GPP. When covering the operational side the report has provided some very important key performance indicators. However, the report did not calculate any of those indicators along which GPP can measure its performance. Though, it was stated that not enough information was available to calculate the KPIs. Under this condition those KPIs should then be developed which are actually measurable given the information available. The use of defining KPIs is only realised if the organisation is able to measure them. GPP may need severe capacity building to generate such numbers.

Several errors and inconsistencies were observed in the financial accounts of GPP. The report only maps out the financial accounts and lists the issues. However, to enhance utility of this section GPP must be provided support to redo their accounting on proper format to establish the real financial position of the organisation. The report (probably beyond the scope) has limited use for GPP decision maker to bring in interventions that will improve the flaws in their financial management.

The comparison with other printing presses only partially answers the question and is more like mapping exercise. To make it more useful for decision makers this section should also include the changes that are required to restructure GPP so that it can improve its comparative efficiency. A detailed exercise is required to analyse the difference in work processes and to identify value loss/inefficiency at each step of production. A value loss analysis can help the decision maker to focus on reforming those aspects of the process that are severely detracting value. Under the Ferguson's exercise the section only provided how PCP works and no comparison of efficiency levels or procedures were provided.

Finally in the recommendation sections the reports needs to be augmented for a decision maker to come up with an informed decision. This section lacks a detailed economic cost benefit analysis of the recommended options. The elements provided in the report are a step by step guide to privatise or liquidate no analysis of how much will it cost or the economic benefit was provided. This aspect is probably the most important element in frame of reforming GPP. The decision makers would require a detailed functional analysis and clear economic cost and benefit to make a decision on GPP. In the section below a cost benefit analysis is provided, however, it is solely based on the financial numbers generated by GPP. It by no means can be a substitute for an economic cost benefit analysis which evaluates the functions and resource requirements in terms of economic opportunity cost.