

Sri Lanka Ayurvedic Drugs Corporation – 2015

The audit of the operations of the Sri Lanka Ayurvedic Drugs Corporation for the year ended 31 December 2015 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 . Financial statements for the year 2015 to be furnished in terms of Section 13(6) of the Finance Act, had not been presented even by the date of this report. My observations on the operations of the Corporation for the year under review which I consider should be tabled in Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

1.2 Management's Responsibility for the Financial Statements

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.

2. Financial Statements

2.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003 and Treasury Circular No.01/2004 dated 24 February 2004, although the financial statements of the statutory bodies should be furnished to the Auditor General within 60 days from the close of the year of Account, financial statements for the year 2015 had not been furnished to audit even as at 31 October 2016.

2.2 Maintenance of Assets and Liabilities

Particulars on the assets, liabilities, income and expenditure stated in the financial statements prepared as at 31 December 2014 by the Corporation are indicated below.

<u>Item</u>	<u>Value</u>
	Rs.
Non-current assets	270,128,140
Current Assets	456,920,410
Total Assets	<u>727,048,550</u>
Current Liabilities	49,192,830
Non-current Liabilities	92,139,508
Total Liabilities	141,332,338
Net Assets/ Equity	<u>585,716,212</u>
Total	<u>727,048,550</u>

Total Income	148,671,246
Total Expenditure	<u>(134,197,222)</u>
Before Tax Surplus	14,474,024
Income Tax	<u>(6,505,596)</u>
After Tax Surplus	<u><u>7,968,428</u></u>

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with Laws, Rules, Regulations and Management Decisions were as follows.

Reference to Laws, Rules, Regulations, etc.	Non-compliances
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(a) Treasury Circular No.842 dated 19 December 1978	According to the financial statements prepared for the year 2014, a Register of Fixed Assets on property, plants and equipment amounting to Rs.166, 665,142 had not been prepared even by the end of the year under review.
(b) Public Enterprises Circular No.PED 1/2015 dated 25 May 2015.	Instead of the monthly transport allowance of Rs.30,000 entitled to the Managing Director of the Corporation, a monthly transport allowance of Rs.70,000 with a driver had been provided to that officer and the transport allowance thus overpaid during the period from March to August 2015 was to Rs.240,000.
(c) Public Finance Circular No.364(3) dated 30 September 2002 and Guidelines 5.4.11 and 5.4.12 of the Procurement Guidelines.	The particulars on Value Added Tax of Rs.1,123,720 paid to the contractors and the suppliers including a sum of Rs.266,201 in respect of thirty two invoices the registration numbers of which for the Value Added Tax were not stated had not been furnished to the Commissioner General of Inland Revenue with a copy to the Auditor General.

3. Operating Review

3.1 Performance

The following observations are made

- (a) In terms of the notification published in the Gazette (Extraordinary) No.14853/3 of 11 May 1969, although action had been taken to achieve the main objectives such as maintenance of the business for the production, sale and distribution of Ayurvedic drugs, medicine materials and processed Ayurvedic drugs, import, sale and distribution of the necessary Ayurvedic drugs such as Siddha and Unani, Purchase and processing of domestically produced raw Ayurvedic drugs, conduct of academic researches on Ayurvedic drugs and medicine materials and standardization of such drugs, maintenance of Ayurvedic pharmacies and production of indigenous medicines required for the production of Ayurvedic drugs, action had not been taken to achieve the main objectives such as maintenance of cattle farms in order to obtain pure milk for the production of ghee required for the production of Ayurvedic drugs and development of bee-culture as a domestic industry for obtaining honey required for the production of drugs.
- (b) As a suitable and adequate strategy had not been identified and implemented to obtain raw and dried drugs for the increase of the production capacity, out of the production target of 136 drugs, the estimated cost of which amounting to Rs.398,407,958, targets ranging from 6 per cent to 73 per cent of 90 drugs the estimated cost of Rs.131,790,562 could not be achieved during the year under review and the production of 13 drugs had been entirely abandoned.
- (c) Without including 20 per cent and 30 per cent of the annual estimated demand of the drugs of the Public and private sectors respectively for the year under review in the Marketing Plan, a Production Plan had been prepared thereupon. Accordingly it was revealed that plans had not been prepared to carry out a production in commensurate with the demand. As a result, it had failed to meet the total drugs demand of the public sector during the year under review and the income deprived amounted to Rs.111,611,080. As the information and data had not been maintained to compute the actual demand, number of sales units and the value of the private sector, observations on the deprived income of that sector could not be furnished to audit.
- (d) According to the Marketing Plan prepared for the year under review, although the total income expected from the Public sector had been achieved by 102 per cent, when comparing the expected units of sales with the actual units of sales of each drug, the percentage of the target not achieved had ranged from 2 per cent to 100 per cent. Information and data had not been maintained in the Corporation to compute the number of actual sales units of the private sector.

- (e) As an appropriate methodology had not been devised to obtain cannabis ,an essential drug for the production of 05 drugs for which there is a high demand in the market, those drugs had not been produced in the year 2014 and 2015. Accordingly, the expected income deprived during the two years had been Rs.30,102,700 and Rs.25,079,250 respectively and the expected profit deprived amounted to Rs.10,916,033 and Rs.10,705,530 respectively.
- (f) The publicity expenditure of the year under review was Rs.9,587,884 and it had increased by 255 per cent as compared with the preceding year and the actual sales income of the year under review was Rs.521,697,767 and it had increased by 17 per cent as compared with the preceding year.

3.2 Management Activities

The following observations are made.

- (a) Although an office had been obtained within the World Health Organization premises of the New Delhi for the indigenous medicine activities and three years had elapsed from the payment of advances of Rs.3,000,000 for the repairs and purchase of office equipment by 15 October 2012 made to the Ministry of Foreign Affairs, the Corporation had failed to carry out the relevant activities even by the end of the year under review.
- (b) Although a safety fence had been erected around a land occupied by the Corporation by spending Rs.1,808,795 during the year 2009, action had not been taken to take over the lawful ownership of this land in which a factory was proposed to be constructed, even by 31 December of the year under review.

3.3 Operating Activities

The following observations are made.

- (a) The trade stall obtained at the floating market complex, Pettah on the payment of an advance of Rs.475,000 out of the total rental value of Rs.950,000 without entering into an agreement had been opened on 28 August 2014. Although this trade stall had been closed down in February 2015 on a decision of the Chairman of the Corporation without the approval of the Board of Directors, a sum of Rs.95,000 out of the advance of Rs.475,000 paid at the time of renting the trade stall had not been recovered even by 30 August 2016.
- (b) Action in terms of Financial Regulation 103 of the Democratic Socialist Republic of Sri Lanka had not been taken even up to 30 August 2016 in connection with the excess stocks of Rs.10,119,127 and stocks shortage of Rs.7,291,205 identified by the annual board of surveys conducted from the year 2007 up to the year under review.
- (c) Out of the expenditure of Rs.7,521,992 incurred for the function named *Isiwara Osu Dorata Wedeema* held as the first stage of the project for the introduction and

promotion of 10 novel Ayurvedic drugs products to the open market, 71 per cent had been incurred on the promotional activities. Nevertheless, only 9 old Ayurvedic drugs products and new product had been introduced.

- (d) Contrary to the Pharmacy Order No.21 of 1973, six new inventions had been introduced to the market in the year 2015 by using the formulas not approved by the Formula Committee.
- (e) Out of the wine bottles and Kirala corks purchased in the year 2011 without ascertaining the requirement, 20,678 wine bottles valued at Rs.844,283 and 20,000 Kirala corks valued at Rs.445,000 remained in the stores as at 31 December 2015.

3.4 Transactions of Contentious Nature

As the dates such as the date of making request for the print of leaflets, date of receiving the approval for printing, date of purchase order, date in which the goods were checked by the Security Division of the Corporation and the date of the Goods Received Note being a same date and the date of the goods delivery note of the supplier and the date of the relevant invoice being a date prior to the above date, the transaction relating to the printing of a stock of leaflets and invitation envelopes carried out by incurring Rs.238,000 during the year under review was ensured to be an irregular and intransperant transaction to audit.

3.5 Procurement and Contract Process

The following observations are made.

- (a) Despite being forwarded a bid valued at Rs.7,900,000 to purchase a vehicle with 2,950 CC engine capacity and 16 seats, the imported cost of which including all the taxes was Rs.6,986,482 and equipped with all the specifications required to be contained in a vehicle for the transport of officers, a vehicle with 2,488CC engine capacity and 16 seats, the imported cost of which including all the taxes was Rs.5,311,118 had been purchased at a cost of Rs.7,900,000. The written evidence required in support of the transparency of the procurement process relating to the transaction was not furnished to audit. Further, the Treasury approval had been granted to purchase a vehicle for group transport, whereas all the seats of the vehicle purchased had been detached and it had been made available for marketing purpose.
- (b) Five production machines, the total cost of which amounting to Rs.14,832,560 had been purchased during the year under review from a supplier who had been selected without comparing the specifications presented by the bidders, examining the post qualifications of the bidders and without considering the present net value of the service and maintenance cost and a formal agreement had not been entered in to regarding the service activities of those machines. Due to the reasons such as failure to feed a large quantity of drugs in to those machines at a time, not mixing properly, stickiness of the substance, taking a longer time to take out the mixed substance and requiring 05 labourers to operate those machines, 02 machines costing Rs.7,206,327 out of the above machines installed in November 2015 had remained idle even by

September 2016 and 03 machines costing Rs.4,296,476 had remained underutilized due to the reasons such as throwing out the raw materials from the machine, low capacity, and making a massive sound and vibration in their operations.

- (c) In order to create an exhibit stall for a trade fair held at the Bandaranayake International Memorial Conference Hall, a sum of Rs.551,947 had been spent during the year under review, whereas the procurement procedure had not been followed in connection with this transaction.

3.6 Staff Administration

The following observations are made.

- (a) Action had not been taken to fill 10 vacancies of the Management's posts, even by the end of the year under review.
- (b) Without taking action either to call for applications through the publication of advertisement or conduct structural interviews, officers had been recruited to 41 posts not included in the approved cadre and 16 posts included in the approved cadre on contract basis and to 03 posts not included in the approved cadre on permanent basis.
- (c) An officer had been recruited to a Civil Engineering post not included in the approved cadre for a period of one year from 01 May 2015 without the approval of the Department of Management Services and without a formal scheme of recruitment and he had been paid a sum totalling Rs.595,000 as remuneration and allowances at Rs.85,000 per month during the period from May to November 2015 without issuing a formal letter of appointment and assigning any duties. It was not established to audit that the laptop and accessories and the measurement equipment issued to this officer who had not reported to the service after November 2015 had been handed over to the Corporation.
- (d) Although the initial step of the relevant salary scale should be placed in making new recruitments to the posts, the female officer recruited to the post of Assistant General Manager (Finance) on permanent basis had been placed on a salary step of Rs.53,930 by adding 14 salary increment from the initial salary step.
- (e) At the interview conducted for the post of Quality Control Manager in November 2015, action had been taken to give maximum marks to an officer who had no qualifications and experience and recruit him on permanent basis while giving fewer marks to an officer who had satisfied qualifications and experience in accordance with the scheme of recruitment.
- (f) Having being changed the clause relating to the service experience required in terms of the scheme of recruitment for the post of Assistant General Manager (Marketing), an officer had been recruited on contract basis through paper advertisements.
- (g) Although the age limit relating to the post of Manager (Supplies) should be between 22 years and 45 years as per the scheme of recruitment, the age of the officer

recruited to the post of Manager (Supplies) on contract basis in the year 2016 was 53 years and a monthly salary of Rs.46,655, the last step of the relevant salary scale had been assigned to him.

- (h) A female officer who had not fulfilled the required qualifications in accordance with the scheme of recruitment had been recruited to the post of Management Assistant on contract basis during the year under review.
- (i) Eight persons recruited as unskilled labourers had been appointed to act in the posts of Management Assistant and the Officer in Charge without the required qualifications.
- (j) No written evidence whatsoever had been furnished to audit to the effect that a proposal for the promotion of drugs productions of the Corporation regional wise was received or it was properly followed or the relevant human and physical resources were properly obtained. Nevertheless, 06 Project Coordinating Officers not included in the approved cadre had been recruited for that purpose on the basis of payment of Rs.20,000 per month. Although salaries and allowances amounting to Rs.497,331 had been paid to 05 of the above offices, those officers had reported for duties in the Ministry without reporting for duties in the Corporation.

4. Accountability and Good Governance

4.1 Corporate Plan

Action had not been taken to include and to achieve the following 04 targets incorporated under the objectives relating to the year under review in the five years Corporate Plan from the year 2015 to 2019, in the Action Plan of the year.

- (a) Inauguration of herbal cultivation in favourable climatic areas, commencement of herbal plants cultivation programme as a domestic home garden cultivation and conservation of herbal plants.
- (b) Educating people on the Ayurvedic medical practices and the use of indigenous medicines, opening at least one marketing centre in each town and conduct of medical clinic in those centres.
- (c) Expanding the market for the sale and promotion of drugs and the use of internet for the promotion of indigenous medical practices internationally.
- (d) Opening *Panchakarma* clinics for the sale and marketing promotion of drugs and establishment of a new factory and a raw material collecting centre in Medawachchiya.

4.2 Action Plan

The following observations are made.

- (a) According to the Action Plan pertaining to the year under review, out of 10 new products planned to be manufactured; only 7 products had been manufactured. The reasons attributed to the failure to achieve 73 per cent of the expected quantity of the 7 products were not furnished to audit.
- (b) Out of the *Kwatha* and Syrups planned to be manufactured during the year under review, 61 per cent and 73 per cent could not be manufactured and the reasons attributed thereon were not made available to audit.
- (c) Out of the remaining 7 drugs planned to be manufactured during the year under review, actual production of 5 drugs had been ranged from 42 per cent to 76 per cent. However, the reasons attributed to the failure to reach its maximum production had not been furnished to audit.

4.3 Procurement Plan

A main Procurement Plan had not been prepared including procurement activities at least for a period of three years and the Procurement Plan prepared for the year under review had not been prepared in accordance with the format indicated in Section 4.2.1 of the Procurement Manual. Further, a procurement time schedule had not been prepared.

4.4 Tabling Annual Reports

The Annual Reports of the years 2013 and 2014 had not been tabled in Parliament even by 31 August 2016.

4.5 Unresolved Audit Paragraphs

Despite being pointed out by the previous audit report, the instances where an adequate attention had not been made up to date to correct them are given below.

- (a) Notwithstanding being rejected by the laboratory report and the Medical Committee Report, 4000 Kilograms of honey valued at Rs. 1,980,000 had been purchased from a private establishment in June 2012, whereas the vouchers, receipts and the files pertaining thereto had not been furnished to audit.
- (b) Even though 200 Kilograms of Abhraka Bhashma and Naga Bhashma could have been manufactured by the Corporation at a cost of Rs.5,930,284, those had been imported at a cost of Rs.7,137,130, thus incurring a loss amounting to Rs.1,206,846

(c) In terms of Section 8.2 of the Leave Procedure of the Corporation, although there is no entitlement to the medical leave during the first year of any appointment, sums totalling Rs.15,064,122 had been paid from the year 2009 to 2013 for the medical leave not availed of by the officers and the employees.

(d) Maduka syrup valued at Rs.233,400 manufactured under the Job Card. No.01283115 during the preceding year had spoiled due to the carelessness of the employees.

4.6 Resources of the Corporation issued to other Public Institutions

In terms of the provisions of the Public Enterprises Circular No.PED/12 dated 02 June 2003, employees served in the institution should not be released to the Ministry or other institutions without the approval of the Cabinet of Ministers. Nevertheless, 05 officers recruited as the Security Guards had been released to the Ministry and salaries amounting to Rs.562,674 had been paid by the Corporation during the year under review.

4. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

Area of System and Control	Observations
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(a) Stock control	Failure to maintain the stocks level
(b) Purchasing Control	Failure to take action to purchase goods and services in compliance with the provisions of the Procurement Guidelines.