Sri Lanka Ayurvedic Drugs Corporation - 2010

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1. Financial Statements

1.1 Audit Opinion

In view of comments and observations appearing in this report, I am unable express an opinion on the financial statements of the Sri Lanka Ayurvedic Drugs Corporation for the year ended 31 December 2010.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following observations are made.

(a) A sum of Rs.1,031,435 to be debited to the accrued PAYE account had been debited to the salaries abatement account thus decreasing the salaries abatement account by that amount.

(b) The provision for doubtful debts for the year had been understated by Rs.505,129 due to erroneous computation.

(c) A sum of Rs.700,000 paid as income tax had been brought to account under special allowances account and as such the years tax expenses had been understated by that amount.

(d) Even though the provision for audit fees for the year under review amounted to Rs.350,000 that account had been overstated by Rs.22,180 as 372,180 while the accrued audit fees of Rs.221,384 had been overstated as there was no outstanding audit fees. Thus, the total outstanding audit fees had been overstated by Rs.243,564.

(e) Water charges of Rs.77,730 and the electricity charges of Rs.116,788 relating to the month of December 2010 had not been brought to account and as a result, the profit for the year had been overstated by Rs.194,518.

(f) As 10 per cent EPF contributions of Employees had been accounted twice, the balance of the salaries control account had been understated and the Employees Provident Fund payable account balance had been overstated by Rs.4,324,684.

(g) Incentives of Rs.3,222,582 relating to the preceding year had been brought to accounts as an expenditure of the year under review.

(h) Employees security deposit of Rs.104,159 had been shown under current assets instead of showing it under current liabilities.

(i) The value of donation of finished drugs amounting to Rs.750,048 had been brought to account as sales.

1.2.2 Unreconciled Control Accounts

The following observations are made.

(a) The difference between the value of property, plant and machinery shown in the balance sheet and the balance shown as per schedules amounted to Rs.896,233.

(b) There were differences between the balances appearing in the financial statements presented to audit and the balances appearing in the financial statements prepared by the computer software . Particulars are given below.

Description of Account	Balance as per financial statements	Balance as per computerised financial statements	Difference
	Rs.	Rs.	Rs.
Property, plant and machinery	48,021,730	55,119,297	7,097,567
Sales	316,029,070	317,738,984	1,709,914
Provision for income tax	2,347,073	-	2,347,073

1.2.3 Accounts Payable and Receivable

The following observations are made.

(a) The trade debtor balance shown as Rs.61,171,600 in the financial statements had included sum of Rs.4,737,654 and Rs.56,433,946 remained outstanding for more than 5 years and 01 to 05 years respectively. The following observations are also made in this regard.

- A credit balance of Rs.681,228 had been shown under debtors.
- The balance of the unidentified debtors control account amounted to Rs.30,102,056.
- A sum of Rs.3,535,523 had been written off from debtors accounts without the Treasury approval.

(b) The creditors balance of Rs.14,775,174 in the financial statements had included sums of Rs.3,982,739 and Rs.10,792,435 remained for more than 5 years and 01 to 05 years respectively. The following observations are also made.

- Unidentified creditors balance amounted to Rs.1,089,143.
- There was a creditors debit balance of Rs.78,043.
- A sum of Rs.3,635,494 had been written off against the prior year adjustment account as unidentified creditors during the year under review.

(c) A sum of Rs.193,560 was still due for drugs sent to the Embassy of the Abudabi in the year 2009.

1.2.4 Lack of Evidence for Audit

The following observations are made.

(a) As non of the documents relating to the 26 ledger accounts valued at Rs.147,179,892 shown in the financial statements were not made available for audit examination they could not be satisfactorily vouched / verified or accepted in audit.

(b) Journal vouchers in respect of 54 journal entries passed in the prior year adjustments account were not made available for audit.

1.2.5 Non-compliance with Laws, Rules, Regulations etc.,

Instances of non-compliance with the following laws, rules, regulations were observed.

Reference to Laws, Rules, Regulations etc.,	Non-compliance
(a) Treasury Circular No. 842 dated 19 December 1978	A register of fixed assets had not been maintained.

(b) Public Enterprises Circular No. 15 dated 02 June 2003	
(i) Paragraph 3.7.5 of Chapter 3	It was observed that the Internal Audit had not reviewed whether a sound internal control system had been in operation.
(ii) Paragraph 9.3.1 of Chapter 9	Approval for the scheme of recruitments and promotions had not been obtained.
(c) Paragraphs 4.1, 4.4, 4.2.3, 4.3.1 and 4.3.2 of the Procurement Guidelines	A procurement plan, a procurement time table and the total cost estimate had not been prepared.

1.2.6 Transactions not Supported by Adequate Authority

The Chairman had stated about the following payment of various allowances without the approval of the Treasury that "the exiting incentive scheme is being revied by a Committee for a revision".

(a) Production incentives and special sectoral incentives - Rs.20,264,946

(i) Even though the last cost of finished drugs is being increased periodically with the inflation the manufacturing values had been treated as monthly targets irrespective of that position.

(ii) Despite the monthly production cost targets could be achieved by the normal operation of the Corporation, incentives had been paid on that basis.

(iii) In addition to production incentives, the special sectoral production allowance had also been paid to the employees of the production and Marketing Division and as such a double counting had been done as the production targets were based.

(b) Production incentives (Additional) Rs.1,299,774

The production incentives deprived of due to obtain leave had been repaid as an additional allowances.

(c) Attendance bonus Rs.3,451,125

Even though employees attendance and the production capacity is an interrelated 2 matters an attendance allowance had also been paid in addition to the payment of incentive on production.

(d) Productivity Allowance - Rs.7,607,900

In addition to the payment of incentive based on cost of production the productivity allowances had also been paid based on the same criteria.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

According to the financial statements presented the operation of the Corporation for the year under review had resulted in a pre-tax net profit of Rs.6,090,853 as compared with the pre-tax net profit of Rs.11,735,366 for the preceding year, thus indicating a decrease in net profit by Rs.5,644,513. Increase in establishment and administration expenditure, selling and distribution expenditure and financial expenditure by Rs.3,614,974, Rs.4,318,239 and Rs.2,974,355 respectively totalling Rs.10,907,568 had been the reason for this decrease.

2.2 Operating Review

2.2.1 Performance

The following observations are made.

(a) In comparing the estimated value of production in the year 2009 and 2010 with the actual value of production, it was observed that the expected targets had not been achieved.

Year	Estimated value of production	Actual value of production	Adverse variance	Variance percentage
	Rs.'000	Rs.'000	Rs.'000	%
2009	330,130	232,505	97,625	29.57
2010	301,152	245,460	55,692	18.49

A significant adverse variances were also observed between the estimated and actual production quantities.

(b) In comparing the estimated sales in the years 2009 and 2010 with actual sales, the estimated sales had not been reached.

Year	Estimated sales	Actual Sales	Adverse Variance	Variance Percentage
	Rs.'000	Rs.'000	Rs.'000	%
2009	419,808	295,129	124,679	29.69
2010	444,670	316,029	128,641	28.93

2.2.2 Management Inefficiencies

The following observations are made.

(a) Import of Raw-materials

(i) As the specifications in respect of quality of drugs purchased were not available in the Supplies Division the relevant specifications had not been submitted to the suppliers in ordering drugs.

(ii) Procurement for the year under review had been called for by the corporation in the month of June in that year and as such the emergency, purchases had been made from the market at higher prices subject to the covering approval of the tender board.

(b) Costing of Drugs

The following observations are made.

(i) There were instances where cost sheets relating to the cost centres did not include such information as the number of employees employed, the time taken for completion, machine hours taken for the job etc.

(ii) Cost sheets had not been supervised and signed and there were instances that the overall cost sheets had not been recommended.

(iii) Cost sheets completed and sent by cost centres had not been used for the computation of costs.

(iv) Standards for cost control had not been determined.

(v) There were variances between the estimated and actual production and the estimated cost sheets and completed cost sheets. A system to identify variances and to minimise them had not been introduced.

(vi) In comparing costs compared as at 31 December 2009 with the selling prices for the year 2010, 441 types of drugs out of 912 had incurred losses.

(vii) Proposals made by that Assistant Cost Accountant on 15 June 2010 for the implementation of cost control systems had not been implemented.

(c) The following deficiencies were observed in utilising the computerised Accounting software.

(i) Facilities to prepare a manufacturing account had not been provided by the Computer Software for this institution which operates manufacturing process.

(ii) Even though the packing materials valued at Rs.272,394 had been debited to the Profit and Loss Account as an expenditure, that balance had been still shown in the Computer System under packing materials.

(iii) There was a delay of about 4 months in entering particulars of vouchers to the computer system.

2.2.3 Idle and Under Utilised Assets

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The following observations are made.

(a) The following two projects for which an initial expenditure of Rs.3,997,851 incurred as mobilisation had been abandoned half way.

(i) An initial expenditure of Rs.1,775,095 incurred in the years 2009/2010 for the construction of a new production centre located in the North Central Province.

(ii) The initial expenditure incurred for the planning and designing of a new stores complex for the Corporation in the years 2008/2009 amounted to Rs.2,222,756.

(b) The machine purchased in the year 2004 for cutting solanum jacquini had not been utilised.

2.2.4 Identified Losses

The following observations are made.

(a) Out of 13 regional sales centres of the corporation loses incurred by 12 sales centres during the year amounted to Rs.821,180.

(b) Despite the quality control was failed, 1021 kg of dill seeds valued at Rs.485,036 and 4455 thalis leaves valued at Rs.1,299,256 had been imported and retained in the stores. While the maximum stock level of thalis leaves is 480 kg, 4455 kg had been imported.

3. Systems and Controls

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

(a) Accounting
(b) Debtors and Creditors Control
(c) Utilisation of the Computer Software
(d) Payment of Various Production Incentives
(e) Operating Sales Centre
(f) Costing
(g) Implementation of the Internal Audit
(h) Human Recourse Management