Sri Lanka Ayurvedic Drugs Corporation - 2013

The audit of financial statements of the Sri Lanka Ayurvedic Drugs Corporation for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 and Section 29 of State Industrial Corporations Act, No.49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1:2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI-1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1:4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Ayurvedic Drugs Corporation as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard No.01

Even though the assets which realize within a year should only be shown under the current assets in a Statement of Financial Position, the balance of the Danayojana Bank Account as at 31 December 2013 amounting to Rs.360,000 kept as security for the loan amounting to Rs. 60 million due to be settled within 180 months had been shown under the current assets in the Statement of Financia Position despite that money could not be encashed until that loan is settled.

(b) Sri Lanka Accounting Standard No.16

(i) Property, Plant and Equipment, of which the net value amounted to zero as at the end of the year under review, costing Rs.78,743,936 had not been revalued and the present value thereof had not been shown in the financial statements.

(ii) If the carrying amount of the Property, Plant and Equipment is subject to instant variations, revaluation thereof should be carried out annually. Nevertheless, without revaluating the Gold stock during the year under review the Corporation had accounted for such stock according to the revaluation amount of the preceding year.

(iii) The depreciation of Property, Plant and Equipment should be initiated when they are rendered usable. Although the water purification system of the Corporation completed at a cost of Rs,18,588,229 in the year 2011 had been handed over in January 2013, that amount had been further shown in the Work- In -Progress Account and action had also not been taken to depreciate the assets.

(c) Sri Lanka Accounting Standard No.18

Recognition of income should be done after the receipt of such income is specifically confirmed. Nevertheless, a sum of Rs.750,797 accounted as receivable income in the year 2010 and not received up to 31 December 2013 had been shown under receivable income. Further, the source from which the income is receivable had not been confirmed to audit..

2.2.2 Accounting Policies

The following disclosures had not been made in the accounts.

(a) Even though the information which cannot be included in the face of the financial statements should be disclosed by the notes, the following items of antique value of which prices cannot be fixed and available in the stores during the year under review, had not been disclosed by the notes.

Item	Quantity
	Kg.
Pearl shells	86.35
Deer horns	52.01
Musk pills	23.00
Deli pothu	3.00

(b) The additional information other than the information included in a Statement of Financial Position, Comprehensive Income Statement, Statement of Changes in equity and a Cash Flow Statement should be presented by notes. Nevertheless, the cost of the donations valued at Rs.1,648,937 granted to various individuals by the Corporation had been adjusted in the accounts, but it had not been disclosed by the notes.

2:2:3 Accounting Deficiencies

The following accounting deficiencies were observed.

(a) The stock valued at Rs.317,920 that existed as at the end of the year under review had not been included in the closing stock.

(b) In accordance with the Sri Lanka Accounting Standard No.07, the increase in the accrued expenditure under the changes in working capital in the cash flow statement amounted to Rs.2,257,286, whereas it had been adjusted as Rs.259,852 in the cash flow statement.

(c) Since the cost of Rs.1,775,095 incurred in the construction of Rajarata Factory had been entered as Rs.1,808,795 in the Work- in -Progress Account, a sum of Rs.33,700 had been overstated in the accounts.

(d) Fixed deposits amounting to Rs.52,136 and the interest on the fixed deposit amounting to Rs. 40,962 had been understated in the accounts as at 31 December 2013.

(e) A sum of Rs.33,972 deducted by the Bank from the interest of the fixed deposits belonging to the Corporation had not been posted to accounts.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The main buyers of the drugs supplied by the Corporation are the Department of Ayurveda and the Ministry of Indigenous Medicine and the debtor balance thereof represented 83 per cent of the debts older than one year amounting to Rs.2,390,718. Out of that debtors balance a sum of Rs.1,392,209 had remained outstanding for over a period exceeding 05 years.

(b) Even though an outstanding balance amounting to Rs.2,390,718 older than one year remained in connection with the drugs supplied to 13 public institutions on credit basis by the Corporation, no action whatsoever had been taken to recover that amount from the institutions concerned.

(c) In terms of the internal control procedure of the credit sale of the Corporation, the period for the recovery of the debts is 60 days, whereas necessary action had not been taken for the recovery of debts amounting to Rs.1,558,432 recoverable from 08 institutions in respect of the credit sale done in the year 2013 even as at the date of audit on 15 July 2014.

2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non- compliances were observed.

Reference to Laws, Rules, Regulations,etc.	Non - compliances
(a) Section 10 (5) of the Finance Act, No.38 of 1971	Although the budget for the ensuing year should be approved by the Board of Directors three months prior to commencement of that year, the budget of the Corporation for the year 2013 had been approved only on 24 December 2012.
(b) Financial Regulations of Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 104	(i) Since a preliminary inquiry or final investigation had not been conducted on the two accidents caused to motor vehicles during the year under review, the extent of the damage, cause for the accident and the party responsible for the accident had not been ascertained.
	(ii) Although the repair cost of one motor vehicle amounted to Rs.260,442, indemnity amounting to Rs. 127,253 only had been paid by the insurance fund.
(ii) Financial Regulation 110	The Corporation had not maintained a Register of Losses and Damages.
(iii) Financial Regulation 760	Action in terms of the Financial Regulations had not been taken on the loss or shortage of the stores.

(c) Public Enterprises Circular No.58(2) dated 15 September 2011	In accordance with the Circular the Chairman and the Managing Director are entitled only to a monthly allowance of Rs.60,000 and Rs.45,000 respectively. Nevertheless, they had been paid Rs.174,376 and Rs.148,062 in the year 2012 and Rs.200,505 and Rs.195,332 in the year 2013 as the Attendance Allowance, Productive Allowance, Production allowance and the bonus.
(d) Treasury Circular No.842 dated 19 December 1978	A Register of Fixed Assets had not been maintained in respect of fixed assets aggregating to Rs. 273,288,019.
(e) Decision No.10834 of the Board of Directors.	Even though the Leave Procedure prepared by the Corporation had been cancelled by the decision of the Board of Directors, officers had availed of leaves in accordance with such cancelled Procedure.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Corporation for the year under review had resulted in a surplus of Rs.42,255,668 as compared with the corresponding surplus of Rs.62,731,392 for the preceding year, thus indicating a deterioration of Rs.20,475,724 in the financial results for the year under review as compared with the preceding year. Decrease in the other income by Rs.14,471,071 and the net financial income by Rs.5,985,655 had been the main reasons for this deterioration.

3.2 Analytical Financial Review

As compared with the preceding year, the non-operational income had declined by Rs.14,471,071 and it represented 53.43 per cent.

4. Operating Review

4.1 Performance

The following observations are made.

(a) According to the production plan of the Corporation a cost amounting to Rs.381,911,646 was expected to be incurred for the production, whereas the actual cost incurred amounted to Rs. 282,328,813. Accordingly, it is observed from the following data that production activities suffered a drawback and strict attention should be focused on the achievement of the desired targets.

Item	Estimated Production	Actual Production	Variance	Percentage
	Units	Units		
Arishta (750 ml)	197,700	130,443	(67,257)	(34)
Asawa (750 ml)	128,400	143,450	15,050	12
Thaila (750ml)	185,516	163,331	(22,185)	(12)
Kwatha (750 ml)	148,747	64,719	(84,028)	(56)
Syrup (750 ml)	35,246	17,769	(17,477)	(50)
Aloe Vera Shampoo (95ml)	2,079	723	(1,356)	(65)
Choorna (kg)	37,476	29,321	(8,155)	(22)
Kalka/leha/lepa/modaka(kg)	34,145	24,431	(9,714)	(28)
New production (kg.)	15,853	5,400	(10,453)	(66)
Rasa/Chemical (kg.)	4,201	3,250	(951)	(23)
Watikagugul (kg.)	16,830	11,238	(5,592)	(33)

(b) Even though sales amounting to Rs.395, 488,000 to the public sector had been the target during the year under review, under the above circumstance the actual sales income amounted to Rs.336,196,557. Accordingly, as compared with the budgeted sales income with the actual sales income the actual sales income had dropped by Rs.59,291,443.

4.2 Management Inefficiencies.

Despite the Corporation had invested a sum of Rs.65,307,819 in fixed deposits as at 31 December 2012, without being utilized that sum, a loan amounting to Rs.60 million had been obtained at 15 per cent interest rate for the purchase of a land.

4.3 Operating Inefficiencies

The following observations are made.

(a) Purchase of Raw materials

The following observations are made.

(i) Subsequent to the receipt of the raw materials to the stores and prior to issue of the Goods Receiving Notes (GRN), the Security Division should examine this raw materials and thereafter those should be checked with the relevant invoice and the Purchase Order. Nevertheless, it was observed that the raw materials had been examined after the issue of the Goods Receiving Notes on many occasions.

(ii) Raw materials should be received by the stores only after they are examined by the Drugs Committee, whereas it was observed that raw materials had been delivered to the stores before they were checked by the Drugs Committee on 26 occasions.

(iii) Instances of receiving raw materials by the stores without being checked by the Drugs Committee were observed while supply of goods to the stores by the suppliers prior to the issue of Purchase Orders was also observed.

(iv) Prior to the raw materials being utilized for the production process, recommendation of the Drugs Committee should be obtained about whether such raw materials are at an appropriate standard to be utilized for the drugs manufacturing process, whereas it was observed that raw materials had been utilized for the manufacturing process prior to the receipt of the recommendations of the Drugs Committee.

(b) Annual Board of Survey

The following observations are made.

(i) Although annual stock verifications are carried out, action had not been taken to take necessary steps on the excesses and shortages of stocks identified in each year. Instead of including the physical stock balance, the book balance had been entered in the financial statements.

(ii) A stock verification had not been carried out in the year 2013 and the excesses and shortages of stocks identified by the Board of Survey during the past 6 years amounted to Rs.7,978,555 and Rs.6,087,865 respectively.

(c) Although donations amounting to Rs.1,641,437 had been granted during the year under review, approval of the Board of Director had not been received in this connection. Further, it had not been disclosed at the audit as to whom donations amounting to Rs.367,395 had been granted out of the donations thus granted.

(d) Nikaweratiya Herbal Garden had sustained losses amounting to Rs.4,949,433 during the years 2011 to 2013 due to the heavy maintenance expenditure and limitation of the raw materials received from the Herbal Garden. Attention had not been paid to minimize its continuous losses and maintain it as a productive Herbal Garden .

4.4 Uneconomic Transactions

The following observations are made.

(a) Out of the wine bottles and Kirala corks purchased in the year 2011 without ascertaining the requirement, 24,002 wine bottles valued at Rs.989,603 and 28,000 Kirala corks valued at Rs.623,000 remained in the stores as at 31 December 2013.

(b) 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 and the vouchers pertaining to this purchase, receipts in support of the receipt of money and the files relating to the expenditure had not been made available to audit.

4.5 Identified Losses.

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.

4.6 Irregular Transactions

Even though officers are not entitled to the medical leave during the first year of the appointment according to Section 8.2 of the Leave Procedure of the Corporation, contrary to that officers and employees of the Corporation who received their first appointment of the Corporation had been paid a sum of Rs.15,064,122 from the year 2009 to 2013 in respect of medical leave that had not been availed of during the first year of the appointment.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements.

In terms of the Treasury Circular No.01/2004 dated 24 February 2004, the annual financial statements of Statutory Boards should be furnished to the Auditor General within 60 days from the close of the accounting year. Nevertheless, the financial statements of the Corporation for the year 2013 had been made available only on 27 November 2014. Accordingly, the delay for the presentation of accounts had been 9 months.

5.2 Action Plan

The following observations are made.

(i) Variances between the number of Job Cards to be carried out and specified in the Action Plan and the actual number of Job Cards completed during the year were observed. Similarly, variances were observed among the units to be completed out of 33 Job Cards indicated in the Action Plan.

(ii) Seventeen items included in the Action Plan had not been manufactured during the year and 8 items ,which had not been included in the Action Plan, had been manufactured by the Corporation.

(iii) Comparison of the Action Plan with the actual production revealed 31 instances where actual production had been less than 50 per cent .

(iv) Comparison of the Action Plan with the actual production revealed 24 instances where the actual production ranged between 50 per cent to 75 per cent.

(v) According to the summarized report on the production and the monthly production estimates report presented to audit the estimated production cost had been indicated as Rs.381,911,645. Accordingly, a variance of Rs.5,000,000 was observed between the revised production cost indicated in the Action Plan and the production cost specified in the information furnished to audit.

5.3 Unresolved Audit Paragraphs

Deficiencies pointed out in the previous Audit Reports on which adequate attention had not been paid up to date for rectifying are given below.

(a) In terms of the Management Services Circular No.49 dated 24 December 2012 the bonus payable to an employee of the Public Corporation amounted to Rs.7,500. However, a sum of Rs.2,263,166 had been paid to the staff as bonus at the rate of Rs.10,000 without prior approval of the Cabinet of Ministers. As such overpayment of Rs.607,500 had been made deviating from the provisions of the circulars.

(b) Bank Account

(i) Action had not been taken on unidentified cheques valued at Rs.224,168 older than 15 years that had not been credited to the Bank.

(ii) Action had not been taken to settle the unsettled and unidentified balances valued at Rs.337,010 brought forward over period exceeding 20 years.

(c) Without making payments in respect of goods valued at Rs.194,006 purchased from a private institution, a cheque had been issued in favour of a person on the written direction of the Managing Director of the Corporation and the cheque had been obtained by himself.

(d) In the production of Maduka cough syrup under the Job Card. No.01283115 the Corporation sustained a loss of Rs.233,400 due to the inefficiency of the employees.

(e) Due to the emission of an unpleasent odour from Dharanee syrup bottles manufactured under Job Card No.009967 and No.009979 the value of the drugs removed from the sales amounted to Rs.65,720.

(f) The construction of the Rajarata Factory commenced in the year 2010 at a cost of Rs.1,775,095 had been abandoned halfway.

(g) It was observed that a sum of Rs.3,000,000 had been paid by the voucher No.226/10/2012 dated 12 October 2012 to the Ministry of Indigenous Medicine for establishment of an office of the World Health Organization in New Delhi. Any documentary evidence on the progress thereon had not been furnished to audit.

5. 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.

(a) Stocks
(b) Accounting
(c) Motor Vehicles Control
(d) Staff Administration
(e) Purchase of Raw Materials
(f) Drugs Manufacturing Process.