Sri Lanka Ayurvedic Drugs Corporation - 2014

The audit of financial statements of the Sri Lanka Ayurvedic Drugs Corporation for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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, conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI-1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 16

Even though Property, Plant and Equipment costing Rs.97,128,534 fully depreciated as at 31 December of the year under review had been further utilized for activities of the Corporation, action had not been taken to revalue the assets and adjust the fair value in the financial statements.

(b) Sri Lanka Accounting Standard 20

Amortization adjustments had not been made by identifying the assets purchased out of Government grants amounting to Rs.129,038,210 received from the Treasury as at 31 December 2011.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) A sum of Rs.269,372 had been over- provided for Gratuity due to the erroneous calculation of the Employees Gratuity.

(b) Cost of Stocks amounting to Rs.15,715,396 in 14 Sales Centres had not been brought to account as at the last date of the year under review.

(c) Depreciation of buildings not related to the production process amounting to Rs.934,971 had been brought to account as a production overhead. As such, the production expenditure of the year had been overstated by that amount.

(d) Retention money amounting to Rs.236,861 related to 2 drugs grinding machines imported by the Corporation had not been brought to account.

2.2.3 Unexplained Differences

The following observations are made.

Name of the Account	**Balance as per Ledger Accounts**	**Balance as per Schedules/ Letters of confirmation of balances**	**Difference**
Employee Loans	**Rs.**	**Rs.**	**Rs.**
Balance as at 01/01/2014	17,959,786	16,994,098	965,688
Payment of loans during the year	12,437,834	12,621,963	184,129
Loans recovered in the year	13,009,338	12,245,510	763,828
Bank of Ceylon Call	12,176,712	12,086,301	90,411

Deposits			
Bank of Ceylon Fixed Deposits	1,630,151	1,708,914	78,763

2.2.4 Accounts Receivable

A sum of Rs.750,797 brought to account as income receivable in the year 2010 could not be recovered even by 31 December of the year under review.

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

The following non- compliances were observed.

Reference to Laws, Rules, Regulations,etc.	Non - compliances
(a) Treasury Circular No.842 of 19 December 1978	A Register of Fixed Assets had not been prepared in respect of property, plant and equipment totalling Rs. 166,665,142.
(b) Section 3.3 of Department of Management Services Circular No.05/2014 of 21 November 2014	Even though annual accounts should be presented to the Auditor General on or before the due date for the payment of bonus contrary to that, a sum of Rs.3,423,640 had been paid as bonus on 23 December 2014, despite accounts of the year under review had been presented on 20 November 2015.

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.14,474,024 as compared with the corresponding surplus of Rs.42,255,668 for the preceding year, thus indicating a deterioration of Rs.27,781,644 in the surplus for the year under review. Decrease in the other income by Rs.3,989,587 as compared with the preceding year, understating the closing finished goods of the year by Rs.15,715,396 and the increase of the financial expenditure by Rs.645,336 had been the main reasons for this deterioration.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Even though the value of drugs in the revised annual production plan in the year under review amounted to Rs.423,866,006, the expected annual production had dropped by

Rs.154,878,854 or 36.5 per cent, as the value of actual annual production being Rs.268,987,152. Non-preparation of plans that can be realized, not taking action to improve the production process by identifying a proper and sufficient procedure for the supply of necessary raw and dried drugs had attributed to this decrease.

(b) Public Sector Income of the year under review and the preceding year could not be reached by 27 per cent and 15 per cent respectively in comparing the planned market value of drugs, with the actual market value of drugs. However, even though the private sector income had increased by 12 per cent of the planned sales income in the preceding year, the income that could not be reached in the year under review had been 33 per cent.

4.2 Management Inefficiencies.

The following observations are made.

(a) An advance amounting to Rs.3,000,000 had been issued on 15 October 2012 to the Ministry of Foreign Affairs for the acquisition and renovation of an office for indigenous medicine purposes in the World Health Organization Office in New Delhi and for the purchase of office equipments. However, relevant function had not been achieved despite 2 years had lapsed after the issue of advances and attention had not been paid to fulfill the relevant function by taking follow- up action on the acquisition, renovation and the purchase of office equipment by the Corporation.

(b) According to the Bank Reconciliation Statement as at 31 December 2014 relating to a current account maintained in a State Bank, there were unsettled deposits amounting to Rs.337,010, which had not been settled for over 20 years. Of these deposits a sum of Rs.22,450 had been identified as deposited but not realized, a sum of Rs.16,633 as unbanked money within the period from 1988 to 1992 and a sum of Rs.297,927 as differences brought forward from prior period. As such, it appeared that there had been financial discrepancies but it appeared that action had not been taken against the relevant officers.

(c) Two machines had not been utilized even by 31 December of the year under review as a suitable platform had not been set up for the installation of 2 grinding machines valued at Rs.2,917,801 and received by the Corporation on 25 January 2014. Even though these two machines had been utilized from March 2015, the Certificate of Warranty which had been granted for 2 years was expired by 13 months as at that date.

(d) 163,300 kg of Desadun Kalka, costing Rs.92,430 manufactured without testing the suitability of the grinding machines had been removed from sale due to mixing of several small pieces of metal to the mixture of drugs.

(e) A safety fence had been built on a land possessed by the Corporation by spending a sum of Rs.1,808,795 in the year 2009 and action had not been taken to acquire the legal ownership of this land in which it was proposed to build a factory, even as at 31 December of the year under review.

(f) The credit balance amounting to Rs.38,613,358 which had remained unidentified since 2009 had been continuously disclosed as a reserve without identifying, in the financial statements.

4.3 Operating Inefficiencies

The following observations are made.

(a) The total loss incurred from 2 Sales Centres located at Colombo Fort Railway Station and Sethsiripaya respectively, had been Rs.623,093.

(b)2,000 kg of Coconut Oil had been purchased for a sum of Rs.476,000 despite it had been refused by the Quality Control Manager due to the acid value of the Coconut Oil not being complied with the prescribed amount.

(c) A trade stall from the Colombo Fort Floating Market Complex had been taken on rent by paying a sum of Rs.475,000 which was a half of the amount of the initial payment of Rs.950,000 without entering into a formal agreement and the stall was opened on 28 August 2014. Despite a profit of Rs.42,481 had been earned as at 31 December of the year under review, the stall had been closed in February 2015, considering that the stall had incurred losses by the Chairman of the Corporation without the approval of the Board of Directors.

(d)A loss of Rs.277,132 had been incurred within 8 months of the year from the Sales Centre of the Corporation that had been opened in April 2013 within the premises of the Ministry of Education, without the approval of the Board of Directors. Reasons in respect of the closure of this sales centre without taking sufficient action to increase the sales income when it had earned profit amounting to Rs.270,221 in the year under review had not been made available to audit.

(e) Action had not been taken to take the surplus stocks valued at Rs.9,782,418 into books identified by the Annual Stocks Verification of each year, carried out from the year 2007 to 2014 and to take further action in accordance with Financial Regulations 103 in respect of stock shortages valued at Rs.6,616,750.

(f) Ten types of drugs planned to be manufactured during the year under review had not been manufactured and information with regard to reasons for not manufacturing those drugs and the loss of income incurred to the Corporation due to this reason was not made available to audit.

(g)The loss of income due to not being able to provide supplies for the orders received for 12 types of drugs such as Suravidura Vati, Jeewananda Vati, Buddharaja Kalka, Wellawengayam Lehaya, Ranahansa Sayanaya, Makaviduranga, Khadirarishtaya, Mahasanka Vati, Sarpagandha Vati, Bhinguwashtaka Choornaya, Wasaka Syrup and Somanatha Rasa amounted to Rs.137,154,983.

4.4 Idle and Underutilized Assets

The following observations are made.

The following matters were observed in the physical verification conducted in respect of goods placed in the Ceyesta Stores Complex.

(a) Waste materials, bottle parts and fixing materials discarded from Sales Centres, 02 grinding machines and 4 tanks valued at Rs.156,000 had been stored in the finished Drugs Store.

(b) A motor bicycle, the value of which could not be identified had been stored in the Stores Complex without utilizing.

4.5 Uneconomic Transactions

Even though an order had been issued by the Committee on Public Enterprises held on 09 November 2007 that the approval of the Treasury should be obtained in the payment of incentives, that approval had not been obtained even by 31 December 2014. However incentives totalling Rs.167,552,388 had been paid in the year under review and the preceding three years.

4.6 Identified Losses

The following observations are made.

(a) A loss of Rs.780,558 had been incurred by the occurrence of a motor vehicle accident in the year under review and a sum of Rs.405,287 had not been covered by the insurance as the motor vehicle had not been insured at its total estimated value. Action had not been taken in respect of this accident in accordance with Financial Regulations 102 and 104.

(b) 218.322 kg of Cannabis had been handed over by the Police in the year 2012 and 15.472 kg out of that Cannabis had been misplaced while being transported to the Corporation under a Supervisory Officer. Even though almost three years had elapsed after the occurrence of this discrepancy, only the preliminary inquiry had been conducted and action had not been taken in accordance with Financial Regulations 104.

(c) Drugs valued at Rs.141,895 had been destroyed in the Sales Centre in Galle due to the collapse of a shelf.

(d) Six hundred liters of manufactured Madhuka Syrup valued at Rs.169,080 and 2,230 kg of currants valued at Rs.1,513,456 and several varieties of drugs valued at Rs.111,785 had been destroyed due to employees inefficiency, non- fumigation and moulding respectively and not being able to utilize for any purpose.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements.

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 and 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 year of accounts. Nevertheless, the financial statements of the Corporation for the year 2014 had been presented only on 20 November 2015, after a delay of 08 months and 20 days.

5.2 Action Plan

The following observations are made.

(a) Even though the Annual Action Plan, for the year under review had been prepared in a manner enabling to achieve long- term objectives as identified in the new Corporate Plan prepared for the period from the year 2013 to the year 2017, 07 out of 09 Capital projects had not been fulfilled which had been planned to be fulfilled in the year under review.

(b) According to the Action Plan of the year 2014 the expected cost of production amounted to Rs.423,866,006 and the actual cost of production amounted to Rs.268,911,820. However, 10 new types of products had not been achieved by 96 per cent and 07 other types of products had not been achieved ranging from 52 per cent to 72 per cent. Reasons for non- achievement of targets were not made available to audit.

5.3 Tabling of Annual Reports in Parliament

The Annual Report of the Corporation of the year 2013 had not been tabled in Parliament even by 31 January 2016.

5.4 Unresolved Audit Paragraphs

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

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

(b) 4,000 kg of Honey valued at Rs.1,980,000 had been purchased from a private institution in June 2012, despite it had been rejected by the Laboratory Report and the Medical Committee Report. Vouchers, receipts and the files relating to these purchases were not made available to audit.

(c) A loss of Rs.1,206,846 of loss was incurred due to importing 200 kg of Abhraka Bhashma and Naga Bhashma by spending a sum of Rs.7,137,130 which could have been manufactured in the Corporation by spending a sum of Rs.5,930,284.

(d) A sum totalling Rs.15,064,122 had been paid from the year 2009 to the year 2013 for unavailed Medical Leave in the first year of the Officers and Employees despite they are not entitled to Medical Leave in the first year of appointment in terms of Section 8.2 of the Leave Procedure of the Corporation.

(e) Madhuka Syrup valued at Rs.233,400 manufactured under the Job Card No.01283115 was destroyed due to the negligence of the Employees.

6. 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 Control
(b) Sales Control
(c) Procurement Process