

## **Sri Lanka Ayurvedic Drugs Corporation – 2015**

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The audit of financial statements of the Sri Lanka Ayurvedic Drugs Corporation for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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. The Auditor General's Report on transactions of the Corporation was tabled in the Parliament on 08 August 2017 due to the delay in submission of the financial statements for the year then ended 31 December 2015 . In addition to that 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**

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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**

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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**

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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**

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### **2.1 Disclaimer of Opinion**

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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

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### 2.2.1 Sri Lanka Accounting Standards

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The following observations are made.

#### (a) Sri Lanka Accounting Standard 01

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It had not been disclosed that the nature and the objectives of the capital reserve amounted to Rs. 1,923,741 and the foreign exchange reconciliation reserve amounted to Rs. 19,523 as at 31 December 2015 in terms of the 79 (b) of the Standard.

#### (b) Sri Lanka Accounting Standard 08

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(i) Even though a sum of Rs. 38,613,358 which had been shown under the Reserves as the prior year adjustments for a period of 06 years from the 01 January 2009 to 31 December 2014 had been credited to the retained earnings account in the year under review, detailed data and information regarding that balance had not been disclosed in terms of Paragraph 49 of the Standard.

(ii) At the instance of the correction of the adjustment of understated closing finished goods balance amounting Rs. 15,715,396 shown in the Audit Report of the preceding year, it had been adjusted to the opening balance of the retained earnings of the year under review without adjusting to the prior years in terms of Paragraph 49 of the Standard and it had not been disclosed by notes to the accounts.

#### (c) Sri Lanka Accounting Standard 12

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The relationship between the expenditure on income tax and the accounting profit had not been explained.

#### (d) Sri Lanka Accounting Standard 16

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As a result of non-reviewing of the usable life time of the non-current assets annually, the fully depreciated property, plant and equipment costing Rs. 104,988,115 as at 31 December in the year under review had been further utilized for activities of the Corporation. Action had not been taken to revise the estimated error occurred accordingly in terms of Sri Lanka Accounting Standard 08.

#### (e) Sri Lanka Accounting Standard 20

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(i) Government grants had not been amortized by an equal amount to the annual depreciation expenses amounting Rs. 1,237,316 in respect of the assets purchased out of Government grants.

- (ii) Even though the amortization amounting Rs. 94,410,400 had been made for the assets purchased from the Government grants before the years prior to the year 2015, the assets had not been identified with regard to that.

**(f) Sri Lanka Accounting Standard 24**  
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Information in respect of the paid short-term staff benefits, other long-term benefits and service termination benefits to the Higher Management of the Corporation had not been disclosed.

**(g) Sri Lanka Accounting Standard 39**  
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- (i) A sum of Rs. 2,493,761 had been provided for the bad and doubtful debtors without calculating the amortized cost of the trade debtors amounted to Rs. 86,681,085 in terms of the paragraph 9 of the Standard as at 31 December 2015.
- (ii) Although the market interest rate of the year under review should be applied as the effective interest rate for the calculation of amortized cost of staff loans, without disclosing fair reasons the interest rate of 12 per cent which was applied as effective interest rate in the years 2013 and 2014 had been used for the calculation of the amortization cost of the staff loans amounting Rs. 16,710,369 as at 31 December 2015.

**2.2.2 Accounting Deficiencies**  
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The following observations are made.

- (a) The disbursed recurrent expenditure in the year under review amounting to Rs. 141,243 had been capitalized under Land and Buildings.
- (b) Annual Provision of Depreciation for the non-current assets for the year under review amounting Rs. 54,655 had been understated as a result of the calculation errors.
- (c) A sum of Rs. 163,083 received from the debtors during the year under review had been taken into accounts as sales.

**2.2.3 Unexplained Differences**  
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A difference totalled to Rs. 2,340,683 between the balance according to the 02 account items of ledger accounts and the Schedules/balance confirmations was observed and the details are given below.

Account Item	Balance as per the ledger account	Balance as per the schedules or confirmations	Difference
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	Rs.	Rs.	Rs.
(a) Sales	519,887,808	522,196,560	2,308,752
(b) Fixed Deposits in Bank of Ceylon	1,747,780	1,715,849	31,931
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			<b>2,340,683</b>
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#### 2.2.4 Lack of Evidence for Audit

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The following transactions could not be vouched or accepted in audit as the evidence indicated against each items of account were not furnished .

Item	Value	Evidences not furnished
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	Rs.	
(a) Drugs donated to the external parties	765,352	Formal approvals
(b) Provision for Gratuity	3,958,216	Schedules relating to the calculations
(c) Adjustments made to the retained earnings account	93,373,135	Journal entries

#### 2.3 Accounts Receivable

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Any written evidence had not been furnished for the identification of income amounting Rs. 243,031 receivable from 01 January 2012. Action had not been taken to recover that income even by the 31 December in the year under review and sufficient provision also had not been made available.

#### 2.4 Non - compliances with Laws, Rules and regulations

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A Register of Fixed Assets in respect of the property plant and equipment totalling Rs. 353,359,512 had not been maintained in terms of Treasury Circular No. 842 of 19 December 1978 .

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented , the financial result of the Corporation for the year under review amounted to a surplus of Rs. 41,058,076 and the corresponding surplus for the preceding year was Rs.7,968,428 thus indicating the increase in surplus by Rs. 33,089,648 in the year under review as compared with the preceding year . The decrease of other income by Rs. 2,627,298 and although the administrative , sales and distribution expenses increased by Rs. 44,027,383 the increase of sales by Rs. 74,946,110 and decrease in cost of sales by Rs. 20,198,388 as compared with the preceding year had mainly attributed to the above improvement.

In analyzing the financial results of 03 preceding years and the year under review even though the surplus of the year 2012 amounting Rs. 62,731,392 had decreased to Rs.42,255,668 and Rs. 14,474,024 in the years 2013 and 2014 respectively , it had increased up to Rs. 62,153,332 again in the year under review . However, after consideration of the employees remuneration, the depreciation on the non-current assets and readjusting of taxes paid to the Government to the financial results, the contribution in the year 2012 amounting Rs.194,292,276 had increased up to Rs. 245,255,493 by the year 2015 with fluctuations.

#### **3.2 Analytical Review**

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The Gross Profit Ratio and the Net Profit Ratio had increased by 13.75 per cent and 6.1 per cent respectively and the Current Ratio had decreased by 27.63 per cent in the year under review as compared with the preceding year .

#### **3.3 Procurement Procedure**

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A tea packing machine had been purchased for a sum of Rs. 4,929,309 in the year under review by considering only the cost of the machine without evaluating the bids by computing Operational cost or Life cycle cost in terms of Guideline 7.9.2 of Government Procurement Procedure Manual . Further, it had not been entered in to an agreement with the contractor in terms of Guideline 8.9.1 of Government Procurement Procedure Manual and 3 technical specifications which should have been existed in the purchased machine had not been fulfilled.