Sri Lanka Ayurvedic Drugs Corporation – **2016**

The audit of financial statements of the Sri Lanka Ayurvedic Drugs Corporation for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 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 conducting the audit in accordance with Sri Lanka Auditing Standards consisted with International Auditing Standard's of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basic 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, comprehensive income statement, 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 01

Nature and purpose of the capital reserve of Rs.1,923,741 and the foreign exchange reconciliation reserve of Rs.19,523 as at 31 December 2016 had not been disclosed in terms of Paragraph 79 of the standard.

(b) Sri Lanka Accounting Standard 12

An explanation of the relationship between tax expense (income) and accounting profit had not been disclosed in terms of Paragraph 81 of the standard.

(c) Sri Lanka Accounting Standard 16

Even though, fully depreciated Plant, Property and Equipment costing Rs.107,434,547 as at 31 December of the year under review had been further utilized for the activities of the Corporation, action had not been taken to revalue the assets and to adjust the fair value to the financial statements. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.

(d) Sri Lanka Accounting Standard 20

As a result of omitting the value of assets totaling Rs.30,410,557 purchased by utilizing government grants in the calculation of amortization, the year's amortization had been under accounted by Rs.1,947,340.

(e) Sri Lanka Accounting Standard 24

Information such as short terms employee benefits, other long term benefits and termination benefits payable to the key management personnel of the Corporation had not been disclosed in terms of Paragraph 17 of the Standard.

(f) Sri Lanka Accounting Standard 39

(i) Without being measured the amortized cost of trade debtors valued at Rs.118,010,046 as at 31 December 2016 in terms of Paragraph 9 of the standard, provision for bad and doubtful debts amounting to Rs.2,493,761 had been made.

(ii) Even though, the market rate of the year under review should be used as the effective interest rate for the measurement of the amortized cost of staff loans in terms of Paragraph 46 of the standard, 12 per cent interest rate used as the effective interest rate in the years 2013, 2014 and 2015 had been applied for the computation of the amortized cost of staff loans amounting to Rs.17,243,428 as at 31 December 2016 as well without disclosing a reasonable cause.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) As the rack system purchased in the year under review by incurring an expenditure of Rs.1,492,121 had been accounted as an expense without being capitalized the provision for depreciation for the year under review had been understated by Rs.149,212. In addition, the annual depreciation on another 3 items of non-current assets had been understated by Rs.55,625.

(b) As a sum of Rs.3,386,478 which had been debited to works in progress account of the renovation of Pathiregoda new workshop, the work of which was completed in December 2015 had not been transferred to the Buildings account in the year under review, the depreciation on buildings had been under stated by Rs.169,324.

(c) Even though, the interest income on fixed deposits as per the bank balance confirmation amounted to Rs.311,523, it had been accounted as Rs.259,110.

(d) The finished stock of drugs, costing Rs.1,949,672 existed at 15 Sales Centres and 2 Stores as at 31 December 2016 which expired and non-usable had been included in the closing stock as at the end of the year without being written off against the profit.

(e) Of the interest free loan of Rs.10,000,000 obtained from the National Health Development Fund in the year under review, the loan balance of Rs.8,755,000 payable as at 31 December 2016 had been brought to accounts as an external contributory without being disclosed in the financial statements as a long term loan under non-current liabilities.

(f) The credit sales income of Rs.17,236,388 in the year under review had been understated whereas the mobile sales income had been over stated by the same amount.

2.2.3 Unexplained Differences

The following differences had not been explained.

Account	Balance as per Ledger Account	Balance as per schedules or balance confirmations	Difference
	Rs.	Rs.	Rs.
- Sales	566,362,580	568,227,975	1,865,395
- Bank of Ceylon Fixed Deposits	1,848,157	1,816,227	31,930
- People's Bank Fixed Deposits	3,781,056	3,761,131	19,925

2.2.4 Lack of Evidence for audit

Due to non-availability of evidence for the following items, that could not be satisfactorily vouched or accepted in audit.

Item		Value	Evidence not made available
		Rs.	
(a)	Pre-paid staff benefits	1,099,254	Working papers for the calculation of opening and closing stock of the year.
(b)	Property, Plant and Equipment purchased during the year under review	652,000	Procurement File.
(c)	Drugs donated to outside parties	1,363,702	Formal approval of the Heads of Divisions for the donations of drugs to outside parties.
(d)	Provision for gratuity	9,358,331	Schedules to see how it was calculated.
(e)	Debtors Balance	61,365,224	Confirmation of balances.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Any written evidence whatsoever was not made available for the identification of revenue amounting to Rs.243,031 receivable since 01 January 2012. Action had not been taken to recover that revenue even by 31 December of the year under review and no sufficient provision had also been made therefor.

(b) The total debtor balance of Rs.118,010,046 as at 31 December 2016 had consisted of 45 debtors. It included a debtor balance of Rs.2,394,144 due from 13 debtors and remained outstanding for more than 5 years. Any money thereof had not been recovered during the year under review and a sufficient provision had also not been made therefor.

(c) The creditors balance as at 31 December 2016 amounted to Rs.19,997,013 and an age analysis thereof was not made available for audit. It included 4 creditors balances totalling Rs.2,663,454 relating to the supply of interior quality of raw drugs. Thirty five creditors balances totalling Rs.4,914,317 existed as at 01 January 2016 had not been settled even by 21 September 2017.

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

Instances of non-compliance with Laws, Rules, Regulation etc. are given below.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 757	Action in terms of Financial Regulation had not been taken in respect of stock excesses and shortages totalling Rs.12,893,811 and Rs.9,272,132 respectively identified at the stock verification conducted from the year 2007 to the year under review.
(ii) Financial Regulation 371 amended by Public Finance Circular No.03/2015 of 14 July 2015.	Out of the 12 sub-impress issued to 13 officers of the Corporation during the year under review, totalling Rs.98,153, four imprests totalling Rs.27,055 had not been settled even by 20 September 2017 and the balance sub-imprests of Rs.71,098 had been settled after delays ranging from 38 days to 280 days.
(b) Treasury Circular No.842 of 19 December 1978.	A register of fixed assets total costing Rs.362,012,789 in the year 2016 in respect of Plant, Property and Equipment had not been maintained.
(c) Section 3.3 of the Circular No.05/2014 dated 21 November 2014 of the Department of Management Services	Even though, annual accounts should be presented to the Auditor General on or before the specific date for the payment of annual bonus, despite the accounts of the year under review had been presented on 09 August 2017 a sum of Rs.1,282,164 had been paid as bonus on 27 December 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Corporation for the year under review had been a surplus of Rs.35,630,966 as compared with the surplus of Rs.41,058,076 for the preceding year, thus deteriorating the surplus of the year under review by Rs.5,427,110. Even though, the tax expense had decreased by Rs.8,244,782 as compared with the preceding year, increase in administration and selling and distribution expenses by Rs.12,307,768 and Rs.2,389,401 respectively had attributed this deterioration.

In analyzing the financial results of the year under review and the preceding 4 years, the surplus of Rs.36,594,692 in the year 2012 had decreased up to Rs.30,978,577 and Rs.7,968,427 in the years 2013 and 2014 respectively. The surplus had increased again in the year 2015 up to Rs.41,058,076 but it had decreased to Rs.35,630,966 in the year 2016. After being adjusted the employees remuneration, depreciated on non-current assets and tax expense, the contribution of Rs.168,155,576 in the year 2012 had improved up to Rs.235,112,713 by the year 2016 with fluctuations.

3.2 Analytical Financial Review

The gross profit ratio and the net profit ratio had decreased by 3.66 per cent and 1.61 per cent in the year under review as compared with the preceding year respectively and the current ratio had increased by 1.05 per cent.

4. Operating Review

4.1 Performance

The following observations are made.

(a) In terms of the notice published in the gazette extraordinary No.14853/3 dated 11 May 1969 of the Government, the objectives of the Corporation are as follows.

(i) Carrying the business of manufacture, sale and distribution of ayurvedic drugs and pharmaceuticals and ayurvedic medicinal preparations.

(ii) Import of Ayurveda, Siddha and unani raw and manufacture of drugs and the sale and distribution of such drugs.

(iii) Purchase of locally produced raw ayurvedic drugs and the processing of such drugs.

(iv) Pharmacological and pharmaceutical research in ayurvedic drugs and the standardization of such drugs.

(v) Maintaining ayurvedic horberia and the production of indigenous varieties of ayurvedic herbs required for the manufacture of drugs.

(vi) Establishment and maintenance of dairies for the purpose of obtaining puro cow milk and the production of pure ghee necessary for the manufacture of ayurvedic drugs.

(vii) Undertaking bee farming and the production of bee honey required for the preparation of ayurvedic durgs and the development of bee farming as a cottage industry.

Action had not been taken to achieve the objectives stated in Paragraphs (vi) (vii) above, out of the main objectives.

(b) According to the revised annual manufacturing plan, prepared for the year under review, the value of planned annual indigenous drugs products amounted to Rs.407,357,562 but the actual value of annual product amounted to Rs.249,280,913 and as such the anticipated annual production could not be reached by Rs.158,076,649 or 38.8 per cent. Non-preparation of a realistic plans and non- taking action to improve the production process being identified a sufficient and appropriate methodology for the supply of raw and dried drugs required for production had attributed to this position.

(c) According to the Action Plan for the year 2016, 12 types of new products had been planned but only 16 per cent of them had been manufactured. Furthermore, only 45 per cent and 49 per cent of the anticipated manufacture of Kwatha and Syrup had been manufactured respectively and the actual production of 5 other items had been between 54 per cent and 80 per cent out of 7 items. In addition, all 9 types of drugs planned to be manufactured had not been completely manufactured.

(d) The annual requirement estimate of the Private Sector for the indigenous drugs in the previous year amounting to Rs.173,747,850 had been increased up to Rs.409,167,065 by 135 per cent in the year under review. However, the methodology apply to achieve this market estimate and the manner how this value had been calculated were not disclosed.

(e) Observations on the annual requirement estimates of the Public and Private Sectors for the indigenous medicines in the years 2015 and 2016, actual sales and variances are given below.

(i) Unreachable income from the expected sales within the Public Sector in the preceding year amounted to Rs.93,305,178 or 18 per cent whereas the unreachable income in the year under review amounted to Rs.154,667,424 and it had increased to 26 per cent. Similarly, the unreachable income from the expected sales within the Private Sector in the preceding year amounted to Rs.22,727,709 or 36 per cent whereas the unreachable income in the year under review amounted to Rs.280,633,384 in the year under review and it had improved to 69 per cent.

(ii) Even though, the sales income reached within the Public Sector in the previous year from the expected sales income had been 82 per cent, the percentage of sales income reached in the year under review had decreased to 74 per cent, despite the selling price of products of the Corporation had been increased on 01 January 2016.

(iii) With the approval of the Board of Directors, selling prices of the products of the Corporation had been increased ranging from 37 per cent to 228 per cent in January 2016. Nevertheless, the actual sales income in the Public Sector had increased only by a small percentage of 7 per cent representing Rs.28,554,533 as compared with the sales income of the previous year, but the number of sales units had decreased by 6,934 units or 01 per cent as compared with the previous year.

(iv) A festival, named as introduction of "isiwara osu" had been held in the previous year by spending a sum of Rs.7,521,992 as the first step of the introduction and popularization of 10 new drug products to the open market project. Even though, a sum of Rs.5,399,970 or 71 per cent of the above expense had been spent for publicity, only one new product had been introduced and 9 old products had been presented by modifying the packings. Even though, it was expected from this project to improve the sales income of the Corporation by 50 per cent through these new products, the overall income of the Corporation had increased only by 9 per cent in the year 2016 as compared with the year 2015, despite prices had been increased in the year 2016.

4.2 Management Activities

The following observations are made.

(a) Under the sales promotion and Publicity and Public Awareness of encouraging Herbs Plantation Project, it was aimed that to make aware of 8 lakhs of People during the year 2016 to conduct a market survey to uplift the sales income and the profit by Rs.41,190,000 and Rs.10,290,000 respectively in the year under review to conduct workshops at least in 2 Districts per month in order to cover all 25 districts. A loan of Rs.10,000,000 had been obtained on 09 June 2016 from the Health Development Fund for this Project. However, only 5 workshops in 2 Districts had been conducted by 31 December 2016 and no market survey had been carried out. Similarly, sales income and the profit had not been increased as well.

(b) The average monthly cash balances of 3 current accounts operated in 3 state banks in the year under review amounted to Rs.28,996,320, Rs.26,985,826 and Rs.114,097,332 respectively. Similarly, the current ratio as at 31 December 2016 had been 8.323 and as such action had not been taken to deposit the balance money except for working capital requirement in a short term investments which could earn interest income.

(c) In terms of drugs stores order No.21 of 1973, every formula to prepare any drugs available for sale to Public, should be approved by the formula Committee appointed for that purpose. Nevertheless, the approval of the formula Committee had not been obtained for 10 types of drugs introduced to the Market by the Corporation in the years 2015 and 2016 as new products even by 01 September 2017.

(d) Action had not been taken to recover a loan balance of Rs.913,720 due from 06 employees who had been interdicted during the year under review.

(e) The Board of Directors had decided on 24 June 2015 that the maximum credit limit relating to the mobile sales should be Rs.5,000 and the maximum credit period should be 21 to 30 days. However, an action had been taken contrary to that decision, the total debtor balance which could not be settled even by 15 August 2017 amounted to Rs.3,716,652.

(f) According to the bank reconciliation statements prepared as at 31 December 2016, relating to two current accounts operated in 2 State Banks, unsettled deposits, not settled within a period over 20 years amounted to Rs.337,010 and Rs.224,168. Of this, a sum of Rs.22,450 had been shown as unrealized deposits and a sum of Rs.16,633 had been shown as non-banked money during the period 1988 to 1992. Action had not been taken to identify the responsible officers in respect of unrealized cheques, having been carried out a formal inquiry.

4.3 Operating Activities

The following observations are made.

(a) Even though, sums of Rs.69,037,667 and Rs.59,084,469 had been computed as surpluses of the previous year and the year under review respectively earned from 15 sales centres operated by the Corporation, the cost of sales had not been included in that Computation.

(b) As a result of opening sales centres without any planning, action had to be taken to close down 4 sales centres within a short period.

(c) Without any plan, 4 new sales centres had been opened during the year under review. As such, marketing had been carried out after delays of 3 weeks to 9 months since the dates of entering into agreements. A rent amounting to Rs.739,750 had to be paid for the period before the market activities were commenced.

(d) The revenue of the Nikaweratiya Herbal Garden during the year under review amounted to Rs.866,065 whereas its expenditure was Rs.4,973,307 thus indicating a total loss of Rs.4,107,242. Out of the overall expenditure of this garden in the year under review, 98 per cent represented General Administration Expenses and only a little amount of 2 per cent had been spent for the Development of the Herbal Garden. Appropriate cause if action had not been taken to get the expected benefits from the Herbal Garden.

4.4 Procurement and Contract Process

The following observations are made.

(a) Even though, a sum of Rs.2,458,463 had been paid to the two suppliers during the year under review for the purchase of "Kolakenda" the manner how the suppliers had been selected was not made available for audit. A formal agreements in terms of Guideline 8.9.1 of the Procurements Guidelines had not been entered into with those 2 suppliers.

(b) Matters observed in respect of the construction contract for the sales centre within the Ayurvedic Hospital premises at Borella, the Engineering estimated of which was Rs.613,520 are given below.

(i) Even though, quotations were called for from the 5 registered contractors, quotation letters had been handed over by hand for 3 contractors of them and the quotations had been sent by post to the balance 2 contractors. Even though, the period of 21 days to be given when calling for limited bids in terms of Guideline 6.2.2 of the Procurement Guidelines, only 7 days had been given and as such it was observed that there had been no sufficient period to two contractors to send quotations to whom quotation letters had been sent by post and as such they had not sent their quotations. Accordingly, the competitiveness and the transparency of the Procurement had eluded.

(ii) Even though, three contractors to whom quotation letters had been hand delivered had only submitted quotations, the nature of signatures and seal placed on the bill of quantity where prices were indicated appears to be suspicion. The contract had been awarded to the bidder who had submitted the minimum price of Rs.855,932 on 17 May 2016. In calling, over the telephone to the telephone number given by the bidder who submitted the second minimum price it was established that they were the employees of the bidder who had submitted the minimum price and when calling for telephone numbers given by the bidder who had submitted the 3rd minimum price, it was observed that it did not do construction works.

(iii) Only the name and the 'ICTAD' registration number had been given by the bidder who had submitted the minimum price and such particulars to establish the identity of the bidders who had submitted the second and the third minimum prices were not submitted.

(iv) It was observed that the officers who performed the duties of Procurements had prepared spurious documents with the assistance of the bidder who had submitted the minimum bid contrary to the Section 1.2 of the Government Procurement Guidelines and selected the supplier, without being inquired the bidders qualifications, legal validity of bidders and without competitiveness and transparency.

(c) The matters observed in obtaining building on lease basis for the Jaffna centre are given below.

(i) Deviating from Procurement Process and without obtaining a valuation report from the Government Valuer for the building in terms of Paragraph 5.6 of Chapter XIX of the Establishments Code, a building had been taken on lease in the year under review, 1,309 square feet in extent, to operate the sales centre in Jaffna for the payment of a monthly rental of Rs.65,000 for a period of 5 years for a total sum of Rs.4,219,800.

(ii) As stated in Paragraph 7 of the relevant lease agreement of this building, it had been modified by incurring an expenditure of Rs.1,365,048 including VAT without being obtained the approval of the Lessor. Action had not been taken to get reimbursed the amount of Rs.257,375 incurred for the permanent modification made to the building except for expenses incurred on partition which could be removed again, even by 01 September 2017.

(d) Observations made in respect of the contract for the renovation of Jaffna Sales Centre, obtained on lease basis, the value of Engineering estimate of which amounted to Rs.1,065,900, are given below.

(i) Bids had been called for from 5 contractors during the year under review, and only 3 of them had been registered contractors. The manner how the information of the other 2 contractors was found was not made available for audit.

(ii) Of the three registered contractors, bid calling letters had been sent by Post to two contractors and those letters had been hand delivered to other 3 contractors. The reason for this different methods was not explained to audit.

(iii) Even though, a period of 21 days should be given after calling for limited bids in terms of Guidelines, 6.2.2 of the Government Procurements Guidelines, only 4 days had be given and as such two registered contractors to whom bid calling letters had been sent by Post had no sufficient time to forward their bids and they had not submitted their bids as well. Accordingly, competitiveness and the transparency of procurement was missed.

(iv) Bids had been submitted only by 3 contractors to whom bid calling letters had been hand delivered and the contract had been awarded to the registered contactor on 23 June 2016 who had submitted the lowest bid for Rs.1,365,048.

(v) However, the Bills of Quantity submitted along with the bids by bidders who submitted 2nd and 3rd minimum bids had not been submitted with a covering letter on their Letter Heads, indicating their business names, addresses and telephone numbers etc. and the ICTAD registration number had also not been submitted.

(vi) The nature of signatures and seals placed in the BOQ's were suspicious and their identify could not be established as well.

(vii) Accordingly, it was observed that action had been taken, contrary to Section 1.2 of the Government Procurement Guidelines and the supplier had been selected without being inquired the qualifications and legal validity of bidders and without competitiveness and transparency.

(e) The following observations are made in respect of the contract for the purchase of a Shampoo Mixture with a capacity of 300 Liters at a cost of Rs.1,425,000.

(i) Even though, notes had been kept stating that bids had been called for from 4 suppliers selected from yellow pages on 17 November 2015 for this purchase, evidence to ensure how bid calling letters had been handed over was not made available for audit.

(ii) Three suppliers out of 4 had handed over bids by hand on 11 November 2015, the date prior to the date of sending letters for calling for bids. In addition, it was established that the addresses, telephone numbers and fax numbers submitted by the bidders who had submitted the second and the third minimum prices had been spurious.

(iii) Even though, 15 specifications to be existed in this machine had been prepared, without being compared these specifications with the specifications submitted by bidders, the Technical Evaluation Committee had recommended to purchase this machine from the bidder who quoted the minimum bid for Rs.1,425,000 and satisfied only 8 specifications out of specifications required.

(iv) It was observed that the supplier had been selected contrary to Section 1.2 of the Government Procurement Guidelines and without checking the legal validity of bids and qualification of the bidder and without competitiveness and transparency.

(f) Matters observed in respect of the contract for the supply and installation of 2 stainless steel cubicals to the Corporation are given below.

(i) Without obtaining a bid bond in terms of Guideline 5.3.11 of the Government Procurement Guidelines, the contract for the supply and installation of 2 stainless steel cubicals had been awarded to a selected contractor. Instead of the price of Rs.2,461,312 quoted by the contractor, a condition asking that the price be increased up to Rs.3,322,771 had been submitted and as such Procurement Process had to be re-started.

(ii) Although when the period of submitting bid is terminated, the bids subsequently received should be rejected, the contract had been awarded to a bidder who had quoted the lowest bid for Rs.2,186,382 which had been submitted after the closure of the period of calling for bids in the second time.

(g) Without obtaining a bid bond in terms of Guideline 5.3.11 of the Government Procurement Guidelines, the contract for the supply and installation of a new stainless tank for the boiler had been awarded to a selected contractor. Instead of the price of Rs.1,910,000 submitted by the selected lowest bidder, he made a request to increase the price up to Rs.2,700,000 and as such the Procurement Process had to be re-started. Accordingly, an another contractor had been selected for a sum of Rs.2,366,367, resulting a loss of Rs.456,367 to the Corporation.

(h) In terms of the Corporate Plan prepared for the period from 2015 to 2019, it had to be planned to supply the annual requirement of raw and dried drugs by identifying available and scarce periods. According to the wholesale prices of the Hector Kobbekaduwa Agrarian Research and Training Institute between the period from 21 December 2015 to 26 January 2016, the wholesale price of a kg of Lime in the Petta Manning Market Complex had been as low range as Rs.70 to Rs.100. However, 700 kg of Lime had been purchased at Rs.327 per Kg on 05 February 2016 by incurring a sum of Rs.228,900.

(i) Matters observed in respect of the contract for the construction of a 4 storied stores complex, the cost estimate of which amounted to Rs.71,099,983 are given below.

(i) This contract had been awarded to the State Engineering Corporation deviating from Procurement Process on a decision No.අමප/08/1896/339/015/TBR dated 30 October 2008 of the Cabinet of Ministers at a contract value of Rs.71,099,983, excluding taxes. According to the agreement entered into on 24 October 2011, works should have been completed by 25 December 2013, within 540 days from the date of commencement of works. Even as at 01 September 2017 this construction was not completed. Despite the contract period had not been extended with a proper approval without being recovered the demurrage charges in terms of the agreement, sums of Rs.25,469,960 and Rs.6,514,966 had been paid to the contractor in the years 2014 and 2015 respectively.

(ii) In terms of Guideline 5.4.4 of the Government Procurement Guidelines, a sum of Rs.15,926,396 had been paid on 13 July 2012 as a mobilisation advance subject to a maximum of 20 per cent of the contract sum. Nevertheless, disregarding the delayed period of the contract, a new memorandum of understanding had been entered into with the State Engineering Corporation on 01 June 2016 without being evaluated the balance works, a total advance of Rs.12,992,042 had been paid again on 20 June 2016 and 30 September 2016, in addition to the mobilisation advances already paid.

(iii) Even though, a sum of Rs.882,572 had been paid to a Private Company in the year 2005 for the preparation of the initial design of the building, it did not include a fire protection system, separate toilets for employees, lighten lingarrester and PA BX System and Wiring System and as a result, the total cost estimate of Rs.71,099,983 had to be changed the scope up to Rs.139,951,018.

(iv) According to the decisions and recommendations of the Cabinet of Ministers in December 2014, it was a pre-procurement requirement that the determination of the scope of work should be based on the requirement assessment by correctly identified the future requirement as well as a soil test of the proposed land when the construction was with a Tam foundation. As the attention had not been paid on this matter, scope of work had to be so changed from time to time and the project cost had also had to be revised.

4.5 Transactions of Contentious Nature

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An advance of Rs.100,000 had been paid to the General Manager (Marketing) based on a expenditure estimate prepared without approval of the Chairman for the Opening Ceremony of the Matara Sales Centre. A sum of Rs.83,760 had been spent for this Ceremony and the advance had been settled without submitting bills for Rs.8,260.

4.6 Personnel Administration

The following observations are made.

(a) Without the approval of the Department of Management Services and the Board of Directors, 07 persons had been appointed on contract basis in the years 2015 and 2016 for the Posts of Security Guards which were not included in the approved cadre and a total sum of Rs.2,975,265 had been paid as allowances, comprising a sum of Rs.986,635 in the year 2015 and Rs.1,988,630 in the year 2016. Educational qualifications of those 7 persons were not made available to audit.

(b) Despite there was no project coordinating post in the approved cadre of the Corporation and without the approval of the Treasury representative and the representative Ministry of Health, Nutrition and Indigenous Medicine of the Board of Directors, the Board of Directors had decided to appoint 6 project coordinating officers under the Special Project Division of the Office of the Minister of Health, Nutrition and Indigenous Medicine for the publicity an promotion of Corporation products regionally and to pay a monthly allowance at Rs.20,000 per person. Accordingly, a sum of Rs.497,331 had been paid to 5 officers so appointed as allowances for the period from November 2015 to June 2016 and that expense had been brought to accounts under establishments and Administration expenses.

(c) Twenty Five employees comprising Ten Production Assistants, 9 Management Assistants, 3 Drivers, One vehicle cleaner, One Karyala Karya Sahayaka and an audit officer in excess of the approved cadre had been recruited without the approval of the Department of Management Services during the year under review on contract basis. A total sum of Rs.18,100,478 comprising a sum of Rs.4,377,379 in the year 2015 and Rs.13,723,099 in the year 2016 had been paid as allowances. Nine of them had not fulfilled the minimum qualifications for the relevant posts.

(d) According to the request of the Private Secretary to the Minister of Health, Nutrition and Indigenous Medicine, an employee had been recruited for the Post of Labour, since 01 February 2016 and allowances of Rs.102,530 had been paid to him up to the end of the year under review. The written evidence with regard to in and out of this employee was not made available to audit.

(e) Three officers in charge who had been drawing salaries in service group MA1-1 had been promoted as Assistant Manager (Market Promotion) in June 2015 which was not in the approved cadre, and action had been taken to pay the salaries of service group JM1-1. An overpayment of Rs.359,309 had been made to those 3 officers as salaries from June 2015 to 31 December 2016.

(f) Even though, there should be 12 years service experience in a Government Institution after being graduated, according to the scheme of recruitments, newspaper advertisements had been published so as to submit applications for the persons who had 07 years service experience in a Trading entity and a female officer had been recruited to the Post of Assistant General Manager (Marketing) for a period of 01 year from 01 April 2016 to 31 March 2017 on contract basis and her service period had been extended up to 31 March 2018. The approval of the Department of Management Services had not been obtained to make necessary changes of qualifications in the scheme of recruitments even up to 18 September 2017, the date of audit.

(g) Twenty six unqualified persons had been appointed for acting in 26 posts in excess of the approved cadre and acting allowances of Rs.345,433 and Rs.937,361 had been paid to them during the 2 years of 2015 and 2016.

(h) Action had not been taken to fill the vacancies of the Posts of Technological Assistant (Electrical) and Electrical Technician which were essential posts to the Corporation.

(i) The Service of the General Manager recruited on secondment basis for a period of one year from 02 March 2016 had been terminated on 19 April 2016. The Board of Directors had decided on 23 November 2016 to appoint a retired Deputy Inspector General of Police subject to the approval of the Cabinet of Ministers which had been fallen vacant from that date to 22 November 2016. It was not established whether the approval of the Cabinet of Ministers had been obtained for this appointment and he was a qualified officer for the General Manager's Post.

4.7 Transactions without Authority

The following observations are made.

(a) In terms of provisions in Public Enterprises Circular No.95 of 14 June 1994, only the benefits specially approved by the Cabinet of Ministers, the Public Department of Administration or the Treasury can be paid to the employees of the Corporations with the approval of the Board of Directors. Even though, it was directed by the Committee on Public Enterprises held on 09 November 2007 to obtain the approval of the General Treasury for the incentive scheme implemented since the year 1997, action had not been taken to get this approval even by 30 September 2017. This incentive scheme had included 4 types of incentives such as production incentive based on the cost of production, attendance allowance, unavailed medical leave allowance and productivity incentives. As the cost of production increased annually in terms of the market inflation, the incentive is increased annually as well. As such, it was observed that the expected employee efficiency was not improved by this incentive scheme. The total incentives paid in the year under review and the preceding 5 years amounted to Rs.252,076,299 without the approval of the Treasury.

(b) Even though, a leave procedure manual had been prepared and implemented, indicating administrative and Establishment regulations inherent to the Sri Lanka Ayurvedic Drugs Corporation since 19 November 1987, the approval of the Treasury had not been obtained therefore. Instead, the Board of Directors had decided on 16 February 2009 that the Establishments Code, Financial Regulations and other relevant circulars should be used since January 2009. However, contrary to that decision, it was observed that without the approval, once the leave procedure manual and at another time financial regulations, Establishments Code and relevant circulars had been applied as beneficial to the employees. Even though, medical leave was not entitled in the first year of appointment in terms of Section 8.2 of the Leave Procedure Manual, allowances of Rs.226,643 had been paid to 32 officers and employees for the period 2013 to 2016 for unavailed medical leave in the first year of appointment.

(c) A female trade-unionist of the Corporation had participated in the trade "Union Organizing Strategies for Development and inclusion" workshop held during the period from 23 May 2016 to 27 May 2016 held Soul in Korea with the participation of 18 Union members of 11 countries in the World. Despite food and lodging had been provided to that office by that Country for 5 days spent there, a sum of Rs.343,692 equivalent to USD 2300 had been paid to her as incidental and combined allowances, contrary to the provisions in Circular No.මු.ද.01/2015/01 dated 15 May 2015 of the Ministry of Finance.

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 Treasury Circular No.01/2004 dated 24 February 2004 annual financial statements of Statutory Boards should be presented to the Auditor General within 60 days after the closure of the year of accounts. However, the financial statements for the year under review had been presented after a delay of 5 months and 11 days on 09 August 2017.

5.2 Corporate Plan

The Corporate Plan prepared for the period of 5 years from 2015 to 2019 had not been updated for the year under review.

5.3 Unresolved audit paragraphs

The audit paragraphs for which sufficient attention had not been paid to rectify the issues stated in the previous audit reports up to the end of the year under review are given below.

(a) Despite it was rejected by the Laboratory report and the Medical Committee report, 4000 kg of bees' hunney valued at Rs.1,980,000 had been purchased in June 2012 from a private entity and the vouchers, receipts and relevant files relating to this purchase were not made available to audit. This hunney had become obsolete by the year 2015.

(b) As 200 kg of 'Abrhaka Bhashma' and 'Naga Bhashma' could have been manufactured at a cost of Rs.5,930,284 within the Corporation had been imported by incurring an expenditure of Rs.7,137,130, the Corporation had sustained a loss of Rs.1,206,846.

(c) An advance of Rs.3,000,000 had been given to the Ministry of Foreign Affairs on 15 October 2012 for obtaining an office for the indigenous medicine within the Office of the World Health Organization in New Dilhi and to repair it and to purchase office equipment. Even though, 2 years had elapsed after granting the advance, the intended purpose could not be achieved.

(d) A security fence had been built in the year 2009 in a land in the possession of the Corporation by spending a sum of Rs.1,808,795, but action had not been taken to get the legal ownership of this land in which it was proposed to construct a workshop, even by 31 December of the year under review.

6. Systems and Controls

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

Area of Systems and Control	Observations
(a) Stock Control	Even though, stock levels such as maximum, minimum and re-order level had been determined, they had not been practically applied. As stock had not been stacked systematically, stores issues could not be issued at FIFO method.

(b)	Valuation of year end stock	After the value of closing balance of stock had been calculated on book balances, it had not been reconciled with the physical balance and stock excesses and shortages had not been adjusted to the financial statements.
(c)	Procurement Process	Procurements had not been carried out in accordance with the Government Procurement Guidelines.