Sri Lanka Thriposha Ltd. - 2017

The audit of financial statements of the Sri Lanka Thriposha Ltd. for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017, Manufacturing Account, Income and Expenditure 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 Democratic Socialist Republic of Sri Lanka. My observations on the performance of the Company for the year under review which I consider should be tabled in Parliament by me in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka 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 my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing 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 judgement, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Company'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 Company'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 the financial statements.

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

(a) Sri Lanka Accounting Standard

(i) Sri Lanka Accounting Standard -07

According to the following observations it was established that the cash flow statement for the year under review had not been prepared with a proper presentation.

- In terms of paragraph 7 of the standard, the short term 3 months investment of fixed deposits and Treasury Bills totalling Rs.138,900,000 should be disclosed under cash and cash equivalent. Instead, it had been disclosed as investment assets.

- In terms of paragraph 16 of the standard, without being adjusted net cash of Rs.1,000,750 received from the disposal of assets, interest income of Rs.7,539,002 received in cash and Rs.141,000 relating to the investment in treasury bills, the cash flows generated from investing activities had been computed.

- In terms of paragraph 17 of the standard without making adjustment for the government grants of Rs.70,386,741 received in cash, cash flows generated from financing activities had been computed, being adjusted Rs.4,087,601, instead of gratuities of Rs.3,608,978 paid in cash during the year under review.

- According to the paragraph 20 of the standard, without being adjusted to the net profit a sum of Rs.165,297 relating to impirement of intangible assets, net loss of Rs.29,688 generated from disposal of assets, interest income generated from investing activities amounting to Rs.9,402,484 and the amortization of Rs.55,316,860 relating to government grants, cash flows from operating activities had been computed.

(ii) Sri Lanka Accounting Standard 16

- Even though, assets such as computer accessories, printers and mobile phones should be depreciated within their shorter life period in terms of paragraph 51 of the standard, action had been taken to depreciate them, being treated as office equipment within the period of 10 years.

- Even though, property, plant and equipment should be revalued every three or 5 years after the first revaluation in terms of paragraph 34 of the standard, Property, Plant and Equipment revalued at Rs.306,378,658 on 31 October 2012 had not revalued again as at 31 October 2017.

(iii) Sri Lanka Accounting Standard 19

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Even though, the creation of an investment plan in respect of the retirement gratuity obligation in order to minimize future commitments had been encouraged, action had not been taken accordingly.

(iv) **Sri Lanka Accounting Standard 20**

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The government grants amounting to Rs.395,491,067 received for capital expenditure had not been recognized as a differed Liability and amortized in terms of paragraph 24 of the standard and the methodology used for the presentation in the financial statements and the accounting policy applied had not been disclosed in terms of paragraph 39(a) of the standard.

(v) **Sri Lanka Accounting Standard 24**

Information about benefits given to the key management personnel and transactions with government and entities controlled under the government had not been disclosed in the financial statements in terms of paragraphs 17 and 25 of the standard.

(b) Accounting Deficiencies

The following observations are made.

- The cost of production of suposha in the year ended 31 December 2017 had been overstated by Rs.9,434,309 and accounted whereas the cost of finished stock and work in progress of Thriposha as at 31 December 2017 had been over and under computed by Rs.858,924 and Rs.2,388,929 brought to accounts respectively.

- Interest income from treasury bills and fixed deposits amounting to Rs.891,919 and Rs.1,333,444 respectively had been under computed and brought to accounts.

- A sum of Rs.18,429,850 received direct to the bank from debtors during the year under review, recurrent expenditure of Rs.113,671,287 to be reimbursed from the Ministry of Health, Nutrition and Indigenous Medicine and the capital expenditure of Rs.4,777,448 had not been brought to accounts.

- Even though, the revaluation reserves of Rs.2,709,244 relating to 3 asset items which had been disposed of during the year under review should have been eliminated from the accounts, only a sum of Rs.791,371 had been eliminated from the accounts instead. In addition, the loss from disposal of assets amounting to Rs.791,372 had been under computed and accounted.

- Expenses of Rs.386,015 paid for the ensuing year as expenses for the year and the capital expenditure of Rs.1,355,169 as revenue expenditure had been brought to accounts.

- Out of the advances of Rs.5,499,124 and Rs.13,649,996 paid during the year in respect of the construction of buildings and the installation of 2 machines respectively, the cost of works completed during the year under review had not been identified and transferred to the capital works in progress account.

- Without being recognised the nature of accounting errors, years to be rectified the errors and the related values, a sum of Rs.27,868,284 had been deducted from the income over accumulated expenses in the year under review as prior year adjustments.

- Even though, the present value of retirement gratuity benefits should be computed by following forecasted unit credit method, the value of retirement gratuity benefit commitments as at 31 December 2017 had been computed and brought to accounts as Rs.42,956,779 in terms of provisions in the payment of gratuities Act No.12 of 1983 instead.

- Reasons for the difference of Rs.7,776,374 between the balances confirmed by creditors and the balances as per the creditors schedule had not been explained to audit.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.4 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Thriposha Ltd. as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on other legal and regulatory requirements

As required by Section 163(2) of the Companies Act No.07 of 2007, I state the followings.

(a) The basis of opinion and scope and limitations of the audit are as stated above.

(b) In my opinion:

- I have obtained all the information and explanations that were required for audit and as far as appears from my examination, proper accounting records have been kept by the Company.

- The financial statements of the Company comply with the requirements of Section 151 of the Companies Act No.07 of 2007.

2.3 Non-compliance with laws, rules, regulations and management decisions

The following instances of non-compliance with laws, rules, regulations and management decisions were observed.

Reference to laws, rules, regulations and management decisions etc.	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 110	Register of losses had not been properly

			maintained.
	(ii)	Financial Regulation 187 (3)	A security deposit of Rs.50,000 obtained from a sales assistant (female) in the Suposha Trade Stall on 21 August 2017 had been retained in hand by the Assistant Accountant even by 22 May 2018 the date of audit without being taken action to bank it.
	(iii)	Treasury Circular No.842 of 19 December 1978.	A register of fixed assets had not been maintained in respect of fixed assets belonged to the Company the book value of which amounted to Rs.669,884,140.
	(iv)	Financial Regulation 756 and 757	Even though, a Board of Survey should be conducted each year, a board of survey had not been conducted for the year under review.
	(v)	Financial Regulation 880	Securities from 6 officers who are required to give security in terms of public officers (security) Ordinance had not been obtained.
	(vi)	Financial Regulation 881 (i)	Heads of the Company had not verified whether their subordinates who are required to give security within the prescribed time had done so.
	(vii)	Financial Regulation 891	A security register, containing the names of all officers required to give security had not been maintained.
	(viii)	Financial Regulation 1647	Even though, the Company had 7 motor vehicles, costing Rs.22,208,750, a register recording the vehicles had not been maintained.
(b)	Public Enterprises Circular No.PED/12 of 02 June 2003.		
	(i)	Paragraph 7.2	An operating manual covering main divisions of the Company environment had not been prepared.
	(ii)	Paragraph 8.2.2	Even though, the sanction of the

		Minister of Finance should be obtained for the investment of surplus money, such a sanction had not been obtained for the investment of Rs.138,900,000 made by the Company.
(iii)	Paragraph 9.2(d)	The organisation chart of the Company had not been registered in the Department of Public Enterprises.
(iv)	Paragraph 9.12	Without the approval of the Department of Public Enterprises, a medical Fund had been established and operated and the balance thereof as at 31 December 2017 amounted to Rs.176,422.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Company for the year under review had been a revenue over expenditure amounting to Rs.63,850,252 as compared with the revenue over expenditure for the preceding year amounting to Rs.46,483,631, thus the revenue over expenditure of the year under review had increased by Rs.17,366,621. Generation of sales income of Suposha in the year under review, increase of sales income of wastage by Rs.5,849,708 and increase of interest income by Rs.2,609,409 as compared with the preceding year had mainly attributed to this increase.

In analysing the financial results of the year under review and the preceding four years, the financial result of the year 2013 had been a deficit of Rs.19,848,436 whereas the financial results of the year 2014 had been a surplus of Rs.148,196,491 but it was a deficit of Rs.41,489,464 in the year 2015. Financial Results of the years 2016 and 2017 had become a surplus of Rs.46,483,631 and Rs.63,850,252 again respectively. However, in considering employees remunerations, taxes paid to Government and depreciation on non-current assets, the contribution of the Company in the year 2013 amounting to Rs.106,989,182 had improved up to Rs.312,380,740 in the year 2017 with fluctuations ranging from 43 per cent to 169 per cent.

3.2 Non-compliance with tax regulations

Action had not been taken to compute, account and pay the income tax liability on the net profit of Rs.80,090,895 earned from a new product named as "Suposha" issued to the market since March 2017 and the interest income of Rs.10,367,214 earned from fixed deposits and Treasury Bills, in terms of Section 3(a) of the Inland Revenue Act No.10 of 2006.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

(a) Even though, a corporate plan for the period of 5 years from 2016 to 2020 had been prepared and obtained the approval of the Board of Directors, it had not been presented to the Treasury and the Auditor General, 15 days before the beginning of the financial year in terms of paragraph 5.1.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

(b) A master procurement plan and a procurement time table for the year under review had not been prepared in terms of guideline 4.2.1 of the government procurement guidelines and section 4.2.1 of the procurement manual.

4.1.2 Operations and Review

The following observations are made on the achievement of main objectives as per the Articles of Association.

(a) Even though, the capital provision of Rs.450,000,000 had been given by the Ministry of Health, Nutrition and Indigenous Medicine during the year under review in considering requests made by the Company for the achievement of objectives of the Company, only a sum of Rs.103,880,308 had been utilized therefrom. Accordingly, the savings as at 31 December 2017 amounted to Rs.346,119,692 or between 37 per cent to 88 per cent of the provision.

(b) During the period of 4 years from 2014 to 2017, adverse variances of 78 per cent, 81 per cent, 54 per cent and 52 per cent between the estimated production and actual production of the Company had existed and a gradual increase of the adverse variance was observed since the year 2015.

4.2 Management Activities

The following observations are made.

(a) Without being evaluated the performance of employees, a sum of Rs.44,591,084 had been paid as incentives during the period from 2012 to 2017 and action had not been taken to prepare a proper methodology for the computation of incentives and to get it approved from the Treasury.

(b) As all material expenses required for the manufacturing process were incurred by the Ministry of Health, Nutrition and Indigenous Medicine, the wastage sales income discarded from the manufacturing process should be credited to the Consolidated Fund; without doing so, out of the sales income of wastage amounting to

Rs.17,681,221 in the year under review, a sum of Rs.17,427,438 and a sum of Rs.27,163,646 from the interest income of Treasury Bills had been used for the payment of incentives without proper approval during the period from 2012 to 2017.

(c) Even though, a code of administrative rules for the administrative functions of the Company had been prepared, it had not been implemented even by 04 May 2018, the date of audit being obtained the approval of the Board of Directors.

(d) As a legal deed for the land in which the company was located was not available it was decided to obtain a deed of covenant but it was failed to obtain a deed even by 04 May 2018, the date of audit.

(e) The average monthly cash balance of the current accounts belonging to the Company was Rs.63,725,985 and attention had not been drawn in respect of the investment of surplus money having being correctly forecasted the working capital requirement.

(f) A memorandum of understanding should be reached with the debtors containing a condition that a cash deposit should be made before credit sales. Without entering into such an agreement and without obtaining a cash deposit, credit sales of Rs.5,581,532 had been made to a debtor during the year under review.

(g) Without being assessed the value of an old corroded ambulance, 22 years old and manufactured in the year 1995, given by the Ministry of Health, Nutrition and Indigenous Medicine, it had been insured at an insured value of Rs.2,000,000 and paid a sum of Rs.42,260 as an annual insurance premium.

4.3 Operating Inefficiencies

The following observations are made.

(a) As the allowable normal loss percentage in the manufacturing process had not been estimated, the quantity and the value added to the cost of production as normal loss could not be assessed.

(b) Minimum, Maximum, Re-order and average stock levels relating to the raw material stock management had not been estimated and the purchasing storing and issuing of raw materials were not properly done. As a result, the production process could not be continuously carried out. As the production process had halted half way, materials discarded as wastages had abnormally increased. During the period of 120 days subjected to sample test, it was observed that the production process had to be stopped half way even for 643 hours within 44 days and 823 metric tons of production materials had been removed from the production process during the period of 32 days thereof. An income of Rs.18,681,971 had been earned by sale of 711,768 kg of wastage during the year under review and that income had been used for the payment of incentives without formal approval. The attention of the management had not been paid in respect of the abnormal increase of normal loss.

(c) As all raw material expenses for the production process of the Suposha commenced during the year for marketing had been incurred by the Ministry of Health, Nutrition and Indigenous Medicine, it was agreed to reimburse the relevant cost of production to the Ministry. Instead of calculating such cost based on post-order costing data of the year 2017 it had been calculated based on pre-order costing data of the year 2015 and as such, a sum of Rs.9,434,309 had been over reimbursed.

4.4 Idle and Under-utilized Assets

The following observations are made.

(a) As a result of utilizing a machine with high capacity, purchased by incurring an expenditure of Rs.125 million for grinding and mixing purposes, since October 2016, the old anderson machine, costing Rs.3,866,667 used up to the previous year which could be further utilized had been removed from use.

(b) The cab given by the World Food Organization in the year 2011 to the Company could not be used for running due to non-registration in the Department of Motor Traffic.

4.5 Personnel Administration

The following observations are made.

(a) There were 16 vacancies as at 31 December 2017 and the number of employees recruited in excess of the approved cadre amounted to 23.

(b) Even though, newspaper advertisement had been published by incurring an expenditure of Rs.51,405 to recruit a person for the Post of Finance Manager which was fallen vacant since 13 April 2017, and called for applications and interviews were held, an officer had not been recruited to the post even by 04 May 2018, the date of audit.

(c) Six officers for the posts of 6 coordinating officers, not included in the approved cadre of the Company had been recruited on contract basis and attached to the staff of the Minister of Health, Nutrition and Indigenous Medicine and paid a total salary of Rs.3,243,000 during the year under review. Salaries totalling Rs.2,070,000 had been paid during the previous year as well to 4 officers recruited to this post.

5. Sustainable Development

5.1 Reaching Sustainable Development Goals

In terms of Circular No.NP/SP/SDG/17 dated 14 August 2017, of the Secretary to the Ministry of National Policies and Economic Affairs, every public entity should act in accordance with the 2030 Agenda of the United Nations on Sustainable Development but the Company was unaware about how to perform in respect of its functions come under the purview of the scope of the Company.

As the company was unaware about the 2030 Agenda as mentioned above, action had not been taken to recognize Sustainable Development Goals related to its functions, targets and turning points to reach those goals and indicators to measure the achievement of targets.

6. Accountability and Good Governance

6.1 Presentation of financial statements

In terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements and the draft annual report should be presented to Auditor General within 60 days after the closure of the year of accounts. However, the financial statements and the draft annual report of the year 2015 and draft annual report of the year under review had not been presented to audit even up to the date of this report.

6.2 Internal Audit

Copies of Internal Audit reports relating to the internal audit carried out during the year under review had not been presented to the Auditor General in compliance with the circular No.DMA/2009(2) dated 01 January 2009 of the Department of Management and Audit and financial regulations 133 and 134. Further, it was planned the audit having being prepared 13 audit programs covering 7 divisions, utilising 1,700 main hours during the year under review, but any evidence whatsoever was not made available to ensure whether that plan had been executed. The Internal Audit Division of the Company had consisted of only one officer who represented junior managerial level and as such it could not be satisfied whether sufficient internal audit was carried out and the soundness of the internal control system of the Corporation.

6.3 Audit Committees

In terms of paragraph 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 on good governance, Audit and Management Committees should meet at least once in 3 months. Nevertheless, only one meeting had been held during the year under review by the Company.

6.4 Procurements and Contract Process

The following observations are made.

(a) A master procurement plan and a procurement time table had not been prepared for the year under review in terms of guideline 4.2.1 of the government procurement guideline.

(b) A sum of Rs.8,074,407 had been spent during the year under review for the supply and install maize store and the contract valued at Rs.21,825,000 had been awarded for the supply and installation of the Bucket, staircase and the steel conveyor system for that store. The following observations are made in this connection.

(i) Instead of the whole procurement process for the supply and installation of the store, the bucket thereon staircase and the supply and installation of steel conveyor system had been carried out, national competitive biding had been called for under 2 stages. The second stage of the contract had been awarded to the same contractor who had submitted a bid more than the minimum bid value by Rs.8,106,000 at the first stage.

(ii) In terms of guideline 2.8.3 (f) of the government procurement guideline manual, at least one member, outside the procurement entity should be appointed to the Technical Evaluation Committee but it had not been so done. According to the guideline 2.11.1 (c), a first joint meeting of the Procurement Committee and the Technical Evaluation committee had not been held to agree the procurement time table, procurement method, and the bid documents. Furthermore, in terms of guideline 2.11.3, action had not been taken to record the meetings of the Procurement and Evaluation Committees and to get the declaration of confidentiality form completed by the members of the procurement and technical evaluation committees and clerks in terms of procurement guideline 2.12.

(iii) The standard bid documents bearing NPA/Goods/SBD/01 to be applicable at such procurement had not been used and action had not been taken to get the documents, establishing the authority of the manufacture in a manufacturer’s letter head with the signature of a responsible officer and to establish whether the bidder had registered with the Registrar of Public contracts, in terms of public contract agreement Act No.03 of 1987 for contracts exceeding the value of Rs.50 million.

(iv) In terms of No.11.1 of the instructions to bidders, documentary evidence to establish the qualifications of the manufacturer relating to the ISO 9001 or Community of European (CE) to be submitted had not been presented but disregarding that fact, the supplier had been selected.

(v) The form containing the bidders qualifications, Audited statement of account for the last 3 years experience of the bidder names and addresses of clients to whom services had been provided relating to the pre-performance, production and type of equipment provided, date of incorporation, names and information of persons to be contacted with their telephone numbers and the certificates received from clients stating that the relevant task had been satisfactorily completed etc. had not been presented in terms of No.12 and 13 of the instructions to bidders.

(vi) As the detailed technical specifications relating to this procurement had not been prepared in terms of guideline 5.6.1(a) of the government procurement guidelines, a clear basis was not available to compare the technical specifications. Similarly, manuals containing the evidence to ensure whether the technical specifications stated in the bid documents by bidders actually existed in the system were not presented. Accordingly, technical committee recommendations had been given without being appropriately evaluated.

(vii) Even though, the final payment of Rs.8,074,407 had been made to the contractor based on the certificate submitted by the Technical Evaluation Committee on 14 June 2017, stating that the store belonged to the first stage had been supplied, installed and properly operated, testing the whole system belonged to the first and second stages and displaying the operations had not been done even by 12 January 2018.

(viii) Even though, the retention money should be kept from every payment in terms of guideline 5.4.6 of the government procurement guidelines and condition No.21.1 and 28.2 of contract, 5 per cent retention money of Rs.403,720 from the contract value of the 1st stage had not been retained.

(ix) As the specific date for the completion of contract and the conditions relating to the recovery of demurrage charges had not been included in the agreement entered into with the contractor, the recovery of demurrage charges for the delays of this contract and taking legal action against him in this regard could not be taken.

(x) Instead of doing the whole procurement together, it had been done under 2 stages and as a result, works of the second stage had not been completed even by 04 May 2018 although the works of the first stage had been completed by 14 June 2017 and as such the completion of the whole stores system had unnecessarily delayed. Moreover, sums of Rs.14,000 and Rs.7,000 for two procurement committees and Rs.105,455 and Rs.61,660 for 2 newspaper advertisements had to be paid twice for one purpose.

(c) The following observations are made in respect of the transaction of purchase of 15,000 metric tones of maize required for the production of the year 2016/ 2017 by incurring an expenditure of Rs.757,170,000.

(i) Even though, the procurements over Rs.200 million should be presented to the Cabinet appointed procurement committee in terms of guideline 2.14.1 of the government procurement guidelines, this procurement had been divided into 12 parts and the procurements decisions had been made by the main procurement committee of the Company.

(ii) Had this procurement been carried out by a Cabinet appointed procurement committee, the maximum allowance to be made to that committee amounted to only Rs.44,000 in terms of paragraph 2.9.1 of the government procurement manual, but a sum of Rs.399,000 had been paid to the members of the main procurement committee in 12 occasions and as such an additional sum of Rs.355,000 had to be incurred.

(iii) An agreement had not been entered into with the supplier selected for the supply of 15,000 metric tones of maize, comprising 4,000,000 kg at Rs.54.68 per km during the first 4 months of the period from 01 December 2016 to 30 November 2017 and 11,000,000 kilograms at Rs.48.95 per kg during the second 8 months of that period. As a results, action had to be taken in accordance with the suppliers conditions. Subsequent, to reaching the second 8 months, payment had to be made at Rs.52.50 per kilogram for 1000 metric tones of maize, resulting an overpayment of Rs.3,550,000 made to the supplier. In addition, this supplier had supplied only 9,100 metric tones of maize during the relevant period and bids had been called for again for the supply of balance 9100 metric tones only by spending a sum of Rs.83,850 and the same supplier himself had been selected to supply 5,900 metric tones of maize at Rs.59.50 per kilogram.

7. Systems and Controls

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

	Areas of systems and control	Observations
(a)	Assets control	Not taking action to get the ownership of certain assets.
(b)	Procurement and contract process	Purchases not made in compliance with the government procurement guidelines.
(c)	Personnel Administration	Action taken to fill vacant posts without getting the scheme of recruitment prepared and approved and taking action to recruit for the posts not in the approved cadre.
(d)	Accounting	Action not taken to compute the cost of production and accounted correctly.
(e)	Financial Control	Not following the proper system to collect the dues from Suposha sales agents.