Sri Lanka Ayurvedic Drugs Corporation – 2017

The audit of financial statements of the Sri Lanka Ayurvedic Drugs Corporation for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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. A detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Chairman of the Corporation on 05 July 2018.

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 consistent with International Auditing Standard 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, 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

(i) In terms of paragraph 32 of the Standard, an entity shall not offset assets and liabilities, unless required or permitted by a Standard. However, the credit balance of debtors amounting to Rs.286,918 had been set off against the debit balance of debtors amounting to Rs.169,871,122 as at 31 December 2017 and the net balance of Rs.169,584,204 had been shown in the financial statements as net debtors.

(ii) Even though, action had been taken to capitalize and write off a sum of Rs.2,746,581 against the profit within 5 years from the year under review which had been spent by the Corporation during the year under review for the repair of a building belonged to the Salusala and temporary acquired for a period of 5 years, that accounting policy had not been disclosed in terms of paragraph 117 of the Standard.

(b) Sri Lanka Accounting Standard 2

Even though the value of stock of gold used for the manufacture of drugs, should be stated at cost or net realisable value, whichever is lower in terms of paragraph 9 of the standard, contrary to that, it had been brought to accounts as Rs.3,912,465 assessed in the year 2012.

(c) Sri Lanka Accounting Standard 19

Even though, the gratuity expenditure of Rs.3,425,836 of the year under review had been shown in the financial statements, the assumptions relating to the computation thereof had not been disclosed in terms of paragraph 76 of the Standard.

(d) Sri Lanka Accounting Standard 24

In terms of paragraph 16 and 17 of the Standard, short term employee benefits, other long term benefits and termination benefits paid to the key management personnel of the Corporation should be disclosed. However, only the remunerations paid to them in the year under review had been disclosed.

(e) Sri Lanka Accounting Standard 39

(i) Provision for bad and doubtful debts amounting to Rs.2,912,820 had been made on trade debtors amounting to Rs.169,584,204 as at 31 December 2017, without being measured the amortised cost of debtors, in terms of paragraph 63 of the Standard.

(ii) Even though, it was disclosed that staff loans and receivables had been measured at amortised cost, using effective interest method, in terms of paragraph 46 of the standard, staff loans of Rs.22,944,095 of the year under review had not been stated at amortised cost.

2.2.2 Accounting Deficiencies

The cost of 5 motor vehicles and the accumulated depreciation thereon amounting to Rs.3,256,967 and Rs.3,226,551 respectively, which had not been revalued as at 01 January 2017, but still being used had been omitted from the accounts.

2.2.3 Unexplained Differences

Explanations for the following differences were not made available for audit.

Account	**Balance as per Ledger Account**	**Balance as per the schedule**	**Difference**
	Rs.	**Rs.**	**Rs.**
- Sales Income	578,893,084	593,369,128	14,476,044
- Creditors	29,968,930	31,563,111	1,594,181

2.2.4 Lack of Evidence for audit

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

	Item	Value Rs.	Evidence not made available
(a)	Receivable	152,954	Confirmation of balances.
(b)	Debtors balances	142,018,470	Confirmation of 31 debtor balances.
(c)	Donations of 1,000 bags of dried foods as flood reliefs	1,999,659	Names and designations of officers who placed their signatures for the acknowledgement of dried foods obtained from the Ratmalana 'Sathosa' and the particulars of officers who had participated in this task.
(d)	Balance stocks of raw drugs, finished drugs, packing materials, work-in-progress stationery, lubricant oil and machinery spare parts.	200,507,347	As a result of not getting participated the staff of the Auditor General's Department in the annual physical verification of closing stocks, it could not be satisfied with the value of balance stocks.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Of the total debtor balances of Rs.169,584,204 as at 31 December 2017, 14 debtor balances of Rs.2,394,142 or 1.41 per cent were due from 14 public sector entities more than the period of 5 years but, any money whatsoever therefrom had not been recovered during the year under review.

(b) According to the debtors confirmation letters received in respect of outstanding balances of Rs.76,870 and Rs.12,000 receivable from the Central Provincial Ayurveda Department and the Urban Development Authority remained for periods ranging from 6 to 7 years, it was informed from confirmations that there was no any balance to be settled.

(c) Action had not been taken to get the total creditors balances of Rs.31,563,111 as at 31 December 2017 confirmed by confirmation letters. Delayed periods relating to 40 creditors balances totalling Rs.11,981,221 included therein had ranged from 376 days to 1928 days. Four creditors balances totalling Rs.2,663,454 therefrom had arisen from disputed credit transactions.

(d) Action had not been taken to recover the loan balance of Rs.932,271 due from 6 employees who had been interdicted in the previous year and a loan balance of Rs.18,884 due from an employee who had vacated his post.

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

Non-compliances with Laws, Rules, Regulation and Management Decisions are as follows.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Section 08 of Finance Act No.38 of 1971.	Even though, the approval of the Board of Directors should be obtained not later than 3 months before the commencement of the financial year for which the budget relates, the approval for the budget prepared for the year under review had been obtained after 25 days of the commencement of the year.
(b) Sections 13.1.2 and 13.4 of Chapter 11 of the Establishments Code and Section 9.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003.	In excess of the approved cadre, 26 disqualified officers under 11 designations had been given Acting Appointments, contrary to the provisions of the Establishments Code. Even though, the maximum period of acting post should be 3 months, a total allowances of Rs.2,237,571 had been paid to those 26 officers during the period from 2013 to December 2017 for the acting periods ranging from 9 months to 60 months.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 103	Future action had not been taken in respect of stock shortages valued at Rs.13,472,021 identified during the periods from 2007 to 31 December 2017 in terms of financial regulations and action had also not been taken to get the stock excesses valued at Rs.16,225,809 recognized, into stock books after being investigated.

(ii)	Financial Regulation 237(c)	(i)	In lieu of paying combined allowances for official visits, a sum of Rs.35,364 personally spent by the Managing Director of the Corporation for lodging and foods had been reimbursed being treated as an expense of the Corporation. Despite, a certificate or authority or order of the officer authorizing and/ or approving the service or expenditure had not been given on the voucher or on the under receipt in terms of the above regulation, that payment had been made.
		(ii)	In lieu of genuine bills for a sum of Rs.53,620 spent for 7 works done by obtaining sub-imprests, they had been settled by producing spurious bills.
(iii)	Financial Regulation 371(b) and Public Finance Circular No.03/2015 of 14 July 2015.		Ad-hoc sub-imprests should be settled immediately after the completion of the purpose for which it is obtained. However, ad-hoc sub-imprests totalling Rs.186,483 issued to 20 officers of the Corporation during the previous year and the year under review had not been settled even by 31 March 2018 and the periods of delay as at that date ranged from 01 months to 28 months.
(iv)	Financial Regulation 392(b)		Action in terms of Financial Regulations had not been taken in respect of the cheque valued at Rs.399,360 written in the name of the Director (Medical Supplies) on 20 November 2017 and misplaced subsequently.

(d)	Treasury Circular No.842 of 19 December 1978.	A register of fixed assets in respect of Property, Plant and Equipment revalued at Rs.983,174,296 as at 31 December 2017 had not been maintained.
(e)	Section 5.1.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003.	Even though, a copy of the corporate plan and the copy of the annual budget approved by the Board of Directors and updated should be submitted to the Line Ministry, Department of Public Enterprises and the Auditor General before 15 days prior to the commencement of the year under review, contrary to that, the Corporate Plan and the budget relating to the year 2017 had been presented on 20 March 2017, after a delay of about 3 months.

2.5 Transactions not supported by adequate authority

The following observations are made.

(a) According to the provisions of the Circular No.95 of 14 June 1994 of the Department of Public Enterprises, only the benefits approved by the Cabinet of Ministers, Ministry of Public Administration or the Treasury can be paid to the employees of the Corporations, with the approval of their Board of Directors. Even though, it was directed by the Committee on Public Enterprises on 09 November 2007 that the approval of the General Treasury should be obtained for the incentive scheme implemented since the year 1997, without Treasury approval, action had not been taken to obtain such approval even up to 28 March 2018. This incentive scheme includes, 4 types viz, production incentives on the cost of production, attendance allowances, allowances for unavailed medical leave and the productivity incentive. The cost of production annually increases along with the market inflation, resulting the increase of incentives annually as well and as such the employees efficiency expected by a incentives scheme could not be increased as anticipated. The total value of incentives paid in the year under review and the past 5 years without the approval of the Treasury amounted to Rs.307,785,384.

(b) Even though, a leave procedure, containing administrative and establishments regulations inherent to the Sri Lanka Ayurvedic Drugs Corporation had been prepared and implemented since 19 November 1987, the approval of the Treasury had not been obtained therefor. As such, the Board of Directors had decided on 16 February 2009 that, instead of that leave Procedure, the Establishments Code, Financial Regulations and other circulars should be used since January 2009. Nevertheless, without following the Establishments Code, Financial Regulations and other circulars, the Corporation had paid a total sum of Rs.18,292,241 to its officers and employees during the period 2012 to 2017 as unaviled medical leave following the leave procedure not approved by the Treasury instead.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Corporation for the year under review had been a surplus of Rs.43,656,859 as compared with the surplus of Rs.35,630,966 for the preceding year, thus improving the financial result of the year under review by Rs.8,025,893 as compared with the preceding year. Even though, the income tax expense had increased by Rs.4,954,202, increase in sales by Rs.12,530,504 as compared with the preceding year had mainly attributed to this improvement.

In analyzing the financial results of the year under review and the 4 previous years, the surplus of Rs.30,978,577 in the year 2013 had decreased to Rs.7,968,428 in the year 2014 and increased again in the year 2015 up to Rs.41,058,076. The decrease of surplus up to Rs.35,630,966 in the year 2016 had increased to Rs.43,656,859 in the year 2017. After being re-adjusted the staff remunerations, depreciation on non-current assets and tax expense to the financial results, the contribution of Rs.156,301,920 in the year 2013 had increased to Rs.260,300,385 by 2017 with fluctuations.

3.2 Analytical Financial Review

The gross profit ratio and the net profit ratio of the year under review had decreased by 1.87 per cent and 1.25 per cent respectively as compared with that of the previous year and the current ratio had decreased by 2.87 per cent.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

(a) Nine capital activities, the estimated cost of which amounted to Rs.100 million, the purchase of 1,055,572 glass bottles by incurring an expenditure of Rs.30,994,032 and the purchase of 900,000 bottle lids, incurring an expenditure of Rs.3,898,000 included in the Action Plan prepared for the year under review had not been included in the procurement plan for the year under review. Furthermore, the quantities of raw and dried drugs, oil and liquid varieties and packing materials to be procured had not been included in the Procurement Plan for the year under review.

(b) In terms of Public Finance Circular No.01/2014 of 17 February 2014, particulars such as the updated organization structure, approved and actual cadre, annual action plan and the time frame and anticipated output/ results had not been included in the capital expenditure action plan expected to be spent from the Corporation fund, except the activities limited to treasury provisions had not been included in the Action Plan. Similarly, progress reports as at 31 December 2017 had not been prepared in conformity with the action plan.

4.1.2 Operations and Review

The following observations are made.

(a) Review of performance by establishing performance indicators in order to evaluate the activities of the other divisions of the Corporation, relating to the achievement of plans included in the production plan and the marketing plan of the Corporation had not been carried out.

(b) The Corporation had failed to complete any of the 09 capital activities, which had been included in the action plan prepared for the year under review and estimated at Rs.100,000,000, even up to 28 March 2018.

(c) The following observations are made in respect of the anticipated production, actual production and the vacancies thereon according to the action plan prepared for the year under review.

(i) According to the annual production plan prepared for the year under review, the planned annual production of 9 traditional drugs products amounted to 69,201 kg and 654,415 bottles of 750 ml. but the actual production had been 65,815 kg and 453,804 bottles of 750 ml. Accordingly, the expected annual production could not be reached by 3,386 kg and 200,611 bottles of 750 ml. Similarly, the expected cost of production of those 9 products amounted to Rs.303,341,030 whereas the actual cost of production amounted to Rs.324,033,605, arising an adverse variance of Rs.20,692,575.

(ii) According to the annual production plan prepared for the year under review, the planned annual drugs production of 20 new products amounted to 21,337 liters, 7,370 kg and 119,866 units, but the actual production stood at 8,051 liters, 3396 km and 146,569 units. Accordingly, the annual anticipated production could not be achieved by 13,286 liters and 3,974 liters. However, out of the drugs expected to be produced in units, 26,703 units had been manufactured in excess of the expected number of units.

(iii) Production not included in the annual production plan prepared for the year under review, 47,315 units of 28 types of products, 2,389 liters and 32 kg. incurring a total production cost of Rs.3,974,675 had been manufactured. Likewise, more than 50 per cent of the stock of 14 types, out of 28 types of products had remained unsold. It was not established that the authority for the manufacture of these products without being planned had been obtained.

(d) The following observations are made in respect of the annual marketing plan, actual sales and variances thereon in the Public and Private Sectors for indigenous medicine during the year under review.

(i) Even though, the estimated sales income in accordance with the marketing plan prepared for the year under review amounted to Rs.929,430,375, source information based on the preparation of that estimate was not made available for audit.

(ii) The income not being reached the expected sales income in the previous year and the year under review within the public sector amounted to Rs.154,667,424 or 26 per cent and Rs.79,984,655 or decreased up to 15 per cent respectively. Similarly, the income not being reached the expected sales income in the previous year and the year under review within the private sector amounted to Rs.280,633,384 or 69 per cent and Rs.256,076,592 or reduced up to 67 per cent. Even though, the diminution percentage of income not been reached a satisfactorily propensity, under planning of the expected sales income of the year under review as compared with the previous year by Rs.47,158,525 and Rs.26,682,565 in the Public Sector and the private sector respectively had caused thereto.

(iii) As the demand of the public sector for the supply of 40,230 units and 54,032 ml relating to 100 types of products could not be met during the year under review, the revenue deprived of by the Corporation amounted to Rs.106,695,025 and the revenue so deprived of during the previous year amounted to Rs.93,933,125. As a result of failure to meet this demand received from the public sector, even without a market promotion endeavour, a risk existed in the renouncement of specific market share.

(e) According to the notification published in the government gazette extraordinary No.14853/3 of 11 May 1969 action had not been taken to fulfill the key objectives stated therein such as operating farms of dairy cattle to obtain fresh cow milk for the manufacture of pure ghee required for the manufacture of ayurvedic drugs, making bee-honey required for the preparation of drugs, apiculture and the development of apiculture as a cottage industry etc.

(f) “Isiwara Osu” inauguration ceremony had been held in the year 2015 by incurring a sum of Rs.7,521,992 as the first step of the popularization project being introduced 10 new medicinal products to the open market. The following observations are made in this connection.

(i) Even though, 71 per cent or Rs.5,399,970 of the total expenditure had been spent for publicity, only one new product had been introduced and 9 old products had been presented having being modified only the packings.

(ii) Even though, it was expected to increase the sales income by 50 per cent of the Corporation through new products, by finding open market opportunities, as well as protecting state market where traditional ayurvedic drugs are marketed, sales income only by 17 per cent in the year 2015 as compared with that of the year 2014, only 9 per cent in the year 2016 as compared with the year 2015 and 04 per cent in the year 2017 as compared with the year 2016 had improved.

(iii) According to the report with the project proposal, the overall anticipated annual income and expenditure from each product amounted to Rs.33,000,000 and Rs.25,000,000 respectively and as such the expected annual profit amounted to Rs.8,000,000. Nevertheless, according to the information made available to audit, the profit earned from this project during the period of 2 ½ years from June 2015 to 31 December 2017 amounted to Rs.5,968,137 only. Therefore, it was observed that, objects of the project could not be achieved as anticipated.

(g) A project for conducting workshops, covering all 25 districts, at least holding workshops in 2 districts per month had been identified in the year 2016, with the objectives of making aware of 8 lakhs of people on the encouragement of planting medicinal herbs along with the market promotion publicity, conducting a market survey and increasing the previous years sales income and profit by Rs. 41,190,000 and Rs.10,290,000 respectively and a loan of Rs.10,000,000 had been obtained on 09 June 2016 from the Health Development Fund for the implementation of that project. However, only 33 workshops in 10 districts had been conducted during the previous year and the year under review and it was revealed in audit that those workshops had been conducted only in order to make aware about the corporation products as a general market strategy. Likewise, a market survey had not been conducted even as at 31 December 2017 and the expected sales income and the profits had not been increased.

4.2 Management Activities

The following observations are made.

(a) In terms of 1973 drug store order No.21, every formula for processing a drug available for sale to public, it should get first approved by the formula committee appointed for that purpose. Nevertheless, the approval of the formula Committee of the Department of Ayurveda had not been obtained for 12 varieties of drugs introduced to the market as new products by the Corporation during the years 2015 to 2017 even by 31 March 2018 but sold in the market.

(b) Credit terms for credit sales to public sector had not been determined and as a result, the recovery of public sector debts amounting to Rs.163,274,470 as at 31 December 2017 had been at a weak and sluggish position.

(c) The Board of Directors had decided on 24 June 2015 that, the maximum credit limit for mobile sales should be Rs.5,000 and the maximum credit period should be between 21 and 30 days. However, contrary to that, decision and violating those terms, sales had been effected, being the total mobile credit sales balance which could not be recovered even by 31 December 2017 amounted to Rs.3,799,218. In addition, the credit terms determined for credit sales to private sector were not made available to audit.

(d) According to the bank reconciliation statements prepared as at 31 December 2017 relating to the two current accounts maintained in 2 state banks, there were deposits of Rs.337,010 and Rs.224,168 remained unsettled for more than 20 years. Those deposits included a sum of Rs.22,450 deposited but not realised, Rs.16,633 not banked and differences of Rs.297,927 brought forward from a long period. An appropriate action had not been taken by the management in this regard.

(e) Even though, the reports on the preliminary investigations conducted by the Ministry in respect of purchase of unani drugs, incurring an expenditure of Rs.7,316,876, purchase of 2,230 kg of raisin incurring an expenditure of Rs.1,513,456, purchase of 200 kg of bee-vax for Rs.168,000 and the purchase of 1,500 kg of impure gugul, incurring a sum of Rs.1,995,000 had been received by the Corporation in the years 2016 and 2017, the decisions made thereon by the Investigation Committee of the Ministry had not been implemented even by 31 March 2018.

(f) Contradictory to 8 main manufacturing pharmacy drug orders as detailed below, issued with the extra ordinary gazette notification dated 06 September 1976, the drugstore had been operated.

(i) Maintenance of drugs manufacturing pharmacy in a manner, in receiving ventilation and illumination well.

(ii) Mixing, cutting and cleaning drugs by using tables with well prepared surface.

(iii) Properly storing medicines, utilized for the manufacture of drugs.

(iv) Maintenance of drugs manufacturing pharmacy at least 50 feet away from toilets, garbage sumps and fertilizer heaps.

(v) White washing of walls and plank canopy of the drugs manufacturing pharmacy twice a year.

(vi) Daily washing of floors, parts of walls used ceramic tiles, tables and other containers.

(vii) Formalization of proper rules and regulations not to get deployed any persons in production activities who are suffering from infections deceases or suffered recently in the drugs manufacturing pharmacy.

(viii) Before being engaged in production process, drugs manufacturing pharmacy and the production functions should be operated with washed hands and wearing coronets and white washed cloth, covering the chest.

(g) Even though, the budgetary provision for donations for the year under review amounted to Rs.1,500,000, expenditure had been incurred exceeding it by a sum of Rs.1,171,622.

(h) The non-usable and expired finished drugs stock, costing Rs.1,949,672 existed in 15 sales centres as at 31 December 2017 had been included in the year end closing stock, without being written off against the profit.

4.3 Operating Activities

Information about the extent of cultivated land and non-cultivated land from the Nikaweratiya herbal garden, 52 acres in extent, in which cultivation had been started since November 2010 was not made available to audit. A development plan, including the cultivation of new herbs in the herbal garden and obtaining dried drugs, had not been prepared.

4.4 Under-utilization of Funds

The following observations are made.

(a) Out of a sum of Rs.206,000,000 received from the Treasury as capital grants to meet capital expenditure during the period 2014 to 2017, 40 per cent or Rs.82,785,607 had not been utilized.

(b) The monthly average cash balances in the year under review in 3 current accounts operated in 2 state banks amounted to Rs.43,748,993, Rs.35,411,520 and Rs.109,946,431 respectively. Similarly, the current ratio as at 31 December 2017 stood at 7.39 and as such attention had not been drawn to deposit the balance money, in short term investments, receiving interest income, leaving the working capital requirements.

4.5 Personnel Administration

The following observations are made.

(a) Without the approval of the Department of Management Services and the Board of Directors and not included in the approved cadre, 11 persons on permanent basis and 01 person on contract basis had been recruited for the post of security guards and a total sum of Rs.10,015,761 had been paid as salaries and allowances during the period 2015 to 2017.

(b) Exceeding the approved cadre and without the approval of the Department of Management Services, 2 Production Assistants, 3 Management Assistants, 4 Drivers and one labourer had been recruited on contract basis during the year 2015 and salaries and allowances totalling Rs.21,172,718 had been paid during the period from 2015 to 2017.

(c) Three officers who held the post of officer in charge and being drawing the salary scale of MA 1-1 Service category had been promoted to the posts of Assistant Manager (Market Promotion) in June 2015, not within the approved cadre and paid the salary scale of JMI-1 service category. A sum of Rs.446,741 had been paid to those 3 officers as salaries for the period June 2015 to 31 December 2017.

(d) According to the scheme of recruitments, a person should have 12 years service experience of a public or private entity after being graduated for the post of Assistant General Manager (Marketing). Instead, newspaper advertisement had been published, enabling a person with 7 years service experience in a trading entity and a person with only 7 years service experience in a trading entity had been appointed on contract basis for the post of Assistant General Manager (Marketing) for a period of one year since 01 April 2016 and his service period had been extended up to 31 March 2019 subsequently.

(e) Twenty six officers had been recruited for 26 posts in excess of the approved cadre to act in those posts who had not fulfilled required qualifications for those posts and a total sum of Rs.2,237,571 had been paid as acting allowances for the period 2013 to 2017.

(f) According to the scheme of recruitments of the Corporation, the basic qualification for the post of Assistant General Manager (Administration and Human Resources) should be the degree in Human Resource Management/ Law/ Business Management. However, an Arts Graduate who had not aquired such basic qualification had been recruited to that post in the year under review.

(g) Two officers who had not fulfilled the service experience in the relevant field specified in the scheme of recruitment for the two posts of Manager (Planning) and Manager (Supplies) had been recruited in the year under review. Furthermore, an officer who had not fulfilled at least 12 years experience at a managerial level post in a public service or government entity required according to the scheme of recruitment for the post of Assistant General Manager (Finance) had been recruited for the post in the year under review.

4.6 Market Share

The Corporation had not conducted a market survey periodically for the determination of its market share and the Corporation had no apprehension, whether the market share of the entity within the other competitive entities had increased or decreased.

5. Sustainable Development

5.1 Reaching the Sustainable Development Goals

In terms of the Circular No.NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and the year 2030 agenda on Sustainable Development of the United Nations, every public entity should act accordingly and the Corporation was not aware how to act in respect of functions subject to the scope of the Corporation. As the Corporation was not aware about the 2030 Agenda mentioned above, sustainable Development Goals, targets and the turning points to reach those targets and the indicators to measure the achievements of targets had not been identified.

6. Accountability and Good Governance

6.1 Procurements and Contract Process

6.1.1 Procurements

The following observations are made.

(a) In terms of guidelines 4.2.1 and 4.2.2 of the Government procurement guidelines, a master procurement plan, listing expected procurement activities at least for a period of future 3 years and a procurement time table, periodically describing the steps of each procurement activity from the beginning to the end had not been prepared.

(b) Even though, a sum of Rs.1,893,102 had been paid to two supplier for the purchase of herbal gruel during the year under review, the selection method of suppliers, was not made available to audit and formal agreements had not been entered into with those two suppliers in terms of guideline 8.9.1 of the government procurement guidelines.

6.1.2 Weaknesses in the Contract Administration

The following observations are made.

(a) The following observations are made in respect of the construction of 4 storied stores complex, the estimated cost of which amounted to Rs.139,951,018.

(i) According to the Memorandum of Understanding signed on 01 June 2016 with the State Engineering Corporation in respect of the stores complex bing constructed since 12 July 2012, the construction works should have been completed by 20 January 2017, but the building had not been handed over even by 31 March 2018, after being completed the works. The approval for the extension of the period had not been obtained in terms of guideline 8.14.1 of the Government Procurement Guidelines and as the conditions about the recovery of demurrages had not been included in the agreement, the demurrage charges could not be recovered.

(ii) Even though, the insurance coverage obtained by the contractor for the construction works had expired by 30 April 2017, action had not been taken to get it renewed.

(iii) As construction works had not been designed with adequate sanitary facilities, only 4 female toilets and 4 male toilets had been built for the entire building in the second floor of the first building, consisiting of four stories with the space of 28,500 square feet.

(iv) The field inspection carried out on 13 November 2017 revealed that 2 water filters, chairs and tables and cabinets with employee numbers purchased by the Corporation had been kept unprotected in this building.

(b) The following observations are made in respect of the improvement of main roof of the manufacturing pharmacy, the estimated cost of which amounted to Rs.32,000,000.

(i) Bid opening records had not been kept in terms of guideline 6.3.6 of the Government Procurement Manual.

(ii) Even though, the contract had been awarded on 28 December 2017, an agreement had not been entered into with the contractor even by 28 February 2018 in terms of guideline 8.9.1 of the government procurement guidelines and the work had also not been commenced.

(c) The following observations are made in respect of the contract for the supply, install and operate 02 boiling pans with 600 leter capacity, 2 electronic driers and 4 granite grind stones, the total cost of which amounted to Rs.16,310,000.

(i) Bid opening records had not been kept in terms of guideline 6.3.6 of the government procurement manual.

(ii) According to the contract awarding letter, issued on 18 October 2017, all the items of equipment should be supplied, installed on 18 January 2018, equipment had not been supplied even up to 28 February 2018.

(iii) The periods of 2 performance bonds received for this construction work had expired on 26 February 2018 and 20 March 2018 respectively.

(iv) Agreements with the contractors had not been interred into even up to 28 February 2018 in terms of guideline 8.9.1 of the government procurement guidelines,

(d) The following observations are made in respect of the purchase of 25 stainless steel containers for the storing raw and dried drugs in the new stores complex at a total cost of Rs.1,749,500.

(i) Bid opening records had not been maintained in terms of guideline 6.3.6 of the government procurement guidelines. Even though, the evaluation committee report should be completed within a period of 50 per cent of the bid validity period, the technical evaluation reports had been given after a delay of 27 days.

(ii) Even though, the contract had been awarded to the selected contractor on 05 February 2018, the supplier had sent a letter dated 14 February 2018, requesting that as there were differences in the specifications between the contract documents and the contract awarding letter and to settle them. However, the Corporation had not responded to that letter and as such the bid bond had expired by 06 March 2018, despite the relevant supplies had not been made.

(e) The following observations are made in respect of the contract for the designing of new electricity distribution system for the main factory of the Sri Lanka Ayurvedic Drugs Corporation, the total cost of which amounted to Rs.10,000,000.

(i) Even though, a budgetary provision of Rs.10,000,000 had been made on the basis of an overestimate, being considered as an emergency purpose, without being prepared a correct and a real estimate, the value of contract awarded amounted to Rs.84,000 only.

(ii) In terms of Government Procurement Guidelines, supplement 27, one member should not be appointed more than 3 technical evaluation committees at a time. Nevertheless, 3 officers holding the posts of Technical Engineer (Ministry of Health), Assistant General Manager (Factories) and the Manager (Finance) had been appointed to 4 Technical Evaluation Committees, including this committee.

(iii) Bid opening reports had not been maintained in terms of government procurement manual and a more than one year had been taken to commence and complete the procurement.

(f) The following observations are made in respect of the repair of building, temporary acquired for a period of 5 years by the Corporation, the total cost estimate of which amounted to Rs.2,533,642.

(i) A bidder who had only a service period of 7 months whose business name was registered on 20 April 2017 at the first time and without checking the pre-qualification in terms of guideline 3.12.2 of the government procurement guidelines had been selected.

(ii) Without being obtained a recognized advance bond in terms of guideline 5.4.4 of the government procurement guidelines, a mobilization advance of 20 per cent, amounting to Rs.458,434 had been paid. Similarly, a performance bond of 5 per cent amounting to Rs.126,682 had not been obtained in terms of guideline 5.4.8.

6.2 Budgetary Control

Adverse variances between the budgeted revenue and the actual revenue in 6 revenue items and the budgeted expenditure and the actual expenditure in 15 items out of 50 items had ranged from 8 to 35 per cent and 5 to 117 per cent respectively relating to the year under review thus, the budget had not been made use of as an effective instrument of management control.

6.3 Unresolved Audit Paragraphs

Audit paragraphs shown in the previous audit report for which sufficient attention had not been drawn to rectify them even by 30 June 2018 are given below.

(a) Despite, 4000 kg of bees' honey valued at Rs.1,980,000 had been rejected by the laboratory test report and the medical committee report, it had been purchased from a private entity in June 2012. Vouchers, receipts and relevant files relating to this purchase were not made available to audit. This stock of bees' honey had become non-usable even by 30 June 2018.

(b) Two hundred kg of 'Abraka Bhashma' and 'Naga Bhashma' which could have been manufactured within the Corporation by incurring an expenditure of Rs.5,930,284 had been imported in the year 2012 by incurring an expenditure of Rs.7,137,130, resulting a loss of Rs.1,206,846 incurred by the Corporation.

(c) An advance of Rs.3,000,000 had been paid to the Ministry of Foreign Affairs on 15 October 2012 for obtaining an office, repair it and to purchase office equipment for indigenous medicine functions within the World Health Organization Office in New Delhi. Even though, 5 years had elapsed being given the advance, the intended purpose could not be fulfilled.

(d) A security fence had been built in the year 2009 by incurring an expenditure of Rs.1,808,795 in a land by which the Corporation had tenured and the legal ownership of this land in which the construction of a manufacturing shed was proposed had not been acquired even by 31 December 2017.

7. Systems and Controls

Weaknesses in systems and controls 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 control.

Areas of systems and controls		Observations
(a)	Stock control	Even though, the maximum, minimum and re-order levels had been determined, they had not been practically implemented, issues had not been made on ‘FIFO’ method, as stock had not been properly stored. After computation of the year end closing stock on book values, stock shortages and excesses observed as compared with the physically verified values had not been adjusted to the financial statements.
(b)	Stores Control	Non-implementation of a system to store bottles and a large quantity of impure empty bottles had been stacked in the factory building.
(c)	Accounting	Non-maintenance of creditors and debtors control accounts.
(d)	Expenditure Control	(i) Advance register not properly maintained, not subjected to regular checking, not strengthening internal control thereon. (ii) Instead of purchasing office bags in accordance of with the government procurement guidelines and distributing among the relevant officers, issue if ad-hoc sub-imprests to officers.