

Sri Lanka Ayurvedic Drugs Corporation - 2019

1.1 Disclaimer of Opinion

The audit of the financial statements of the Sri Lanka Ayurvedic Drugs Corporation for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the Statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to the Parliament appear in this report.

I do not express an opinion on the financial statements of the Corporation. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the matters described in the paragraphs 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matter related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternate but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the

Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Institute,
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control on the Preparation of Financial Statements

| Non-compliance with reference to the relevant standard | Comment of the Chief Management | Recommendation |
|--|---|---|
| Even though adjustments had been made between the accounts through 1,478 journal entries valued at Rs.436.44 million during the year under review, 1,370 journal entries worth Rs.306.31 million and the relevant journal vouchers had not been furnished to Audit. Accordingly, the adjustments made between those accounts could not be satisfactorily vouched in audit. | That the relevant subsidiary documents will be submitted in the presentation of financial statements for the year 2020. | Internal accounting control systems should be established so as to ensure the accountability. |

1.5.2 Non-compliance with Sri Lanka Accounting Standards

| Non-compliance with reference to the relevant standard | Comment of the Chief Management | Recommendation |
|---|---|---|
| (a) Due to the matters such as failure in calculating cost of the stocks based on First-in, First-out method or weighted average cost, not considering the stock shortages and excesses and not calculating the value of the closing stock at the cost or net realizable value whichever is less, it was observed that the value of stocks stated at Rs.98.68 million in the financial statements had not been identified as per the terms stipulated in the Sri Lanka Accounting | The fact that the sale centre lacks computer software facilities to maintain stocks under FIFO method; disclosures will be made in accounts statements, 2020; that the Corporation does not carry out sales on the net realizable value; that all the drugs are sold at the quoted price; although discounts are given to the private sector, it is not at a rate | Action should be taken in accordance with the Standard and the financial statements for the year 2020 should be prepared and presented after correcting the above errors. |

Standard 02. Likely, provision of Rs.3 million had been made for a damaged stock of Rs.4.50 million included in the above stock value, whereas the base of making such provision and the details thereon had not been disclosed in the financial statements. Further, the value of unusable stock of drugs costing Rs.5.55 million as at 31 December 2019 and not included in the above stock value had not been adjusted in the financial statements.

- | | | | |
|-----|---|--|---|
| (b) | In terms of Paragraph 42 of the Standard 8, once the material previous years errors are detected, those should be retrospectively corrected in the first set of financial statement approved for the issue by restoring the comparative values presented for the period in which the error occurred. Nevertheless, on the contrary, previous year's correction of Rs.22.07.million had been adjusted to the accumulated profit balance carried forward. | That the correction will be made in the financial statements for the year 2020. | Action should be taken in accordance with the Standard and financial statements for the year 2020 should be prepared and presented after correcting these errors. |
| (c) | Disclosures on Rs.3.25 million and 05 vehicles which were further in use after their fully depreciation had not been made in the financial statements contrary to the Paragraph 79 (b) of the Standard 16. | The book value of these 05 vehicles have been noted, an additional cost will have to be borne in case only 05 vehicles are revalued; that revaluation will be carried out and relevant adjustments will be made in the ensuing year. | -Do- |

1.5.3 Accounting Deficiencies

| | Audit Observation | Comment of the Management | Recommendation |
|-----|--|---|---|
| (a) | Sales on credit of Rs.3.31 million relating to 04 sales centers as at 31 December 2019 had not been brought to account. As such, gross profit of the year had been understated by that amount in the financial statements. | Based on the sales invoices, accounts of the Accounts Division have been updated. | Financial statements for the year 2020 should be prepared and presented by correcting this error. |

- | | | | |
|-----|---|---|---|
| (b) | The tax liability of Rs.820,104 for the year under review had been understated in the financial statements. | This error will be corrected in the financial statements for the year 2020. | -Do- |
| (c) | Due to the failure in accounting for expenditure incurred on the Employees' Trust Fund, Employees' Provident Fund, interest income and the expenditure on packing materials relating to the year under review, the profit for the year under review had been understated by Rs.2.18 million in the financial statements. | -Do- | -Do- |
| (d) | Cost of Rs.13.44 million of two machines acquired during the year under review had not been brought to account under the relevant assets and stated in the financial statements. | This error will be corrected in the financial statements for the year 2020. | Financial statements for the year 2020 should be prepared and presented by correcting this error. |
| (e) | Out of Rs.1.87 million paid during the year under review as contribution and surcharge relating to the Employees' Trust Fund for the period from 2010 to 2013, a sum of Rs.1.49 million only had been debited to the relevant expenditure account and the balance of Rs.376,360 had been debited to the accumulated expenditure account. As such, the balance of the accumulated expenditure account had been understated by that amount in the financial statements. | -Do- | -Do- |
| (f) | Amortization of Rs.54,892 relevant to Rs.1.59 million spent from the Treasury provisions to repair the roof of the manufactory during the year under review had not been brought to account. Further, for total sum of Rs.30.41 million spent from the Treasury provisions for the constructions and renovations and the purchase of tea packing machine, amortization of Rs.5.06 million | -Do- | -Do- |

applicable to the period from 2015 to 2018 had been understated in the accounts.

- | | | | |
|-----|---|---|---|
| (g) | Out of Rs.6.62 million spent for laying paving blocks and construction of drainage system at the Corporation premises during the year 2018, a sum of Rs.2.79 million had not been capitalized and instead of crediting Rs.1.35 million to the General Advance Account to correct that error during the year under review, it had been credited to the accumulated fund. | -Do- | -Do- |
| (h) | The error of being stated Rs.2.79 million spent for a construction completed by 13 September 2018 as the work-in-progress without capitalizing and the error of accounting for a sum of Rs.1.41 million spent for another construction without being considered it as a revenue expenditure had not been rectified even in the year under review. | This error will be corrected in the financial statements for the year 2020. | Financial statements for the year 2020 should be prepared and presented by correcting this error. |

1.5.4 Unreconcled Accounts

| ----- Audit Observation ----- | ----- Comment of the Management ----- | ----- Recommendation ----- |
|---|--|--|
| Although there was a difference of Rs.23.15 million between the value as per the financial statements and the schedules and the value as per balance confirmations furnished to Audit relating to 05 Objects stated in the financial statements, reasons for the difference had not been explained. | There are differences due to failure in accounting for sales on credit and interest income and due to the errors of the age analysis report. | Action should be taken to carry out reconciliations with the corresponding reports and accordingly, submit the financial statements. |

1.5.5 Lack of Documentary Evidence for Audit

| Audit Observation | Comment of the Management | Recommendation |
|--|--|--|
| ----- As balance confirmation certificates for 17 debtors balances totalling Rs.146.71 million and 62 creditors balances of Rs.41.32 million as at 31 December 2019 and source documents for writing off of Rs.15.96 million against the profit under 04 items had not been furnished to Audit, those items could not be satisfactorily vouched or verified in the audit. | ----- Although balance confirmation letters have been referred to 52 debtors and 38 creditors, only 10 debtors and 03 creditors have sent balance confirmations; the fact that a balance of any account has not been written off and that the previous years' errors have been corrected. | ----- The accounting system should be introduced so as to maintain the debtors and creditors control accounts and special attention should be drawn to obtain balance confirmation and on those who do not furnish balance confirmations and to ascertain their identity. The source documents relating to the correction of errors should be presented to Audit. |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

| Audit Observation | Comment of the Management | Recommendation |
|--|---|--|
| ----- Of the total debtors balance amounting to Rs.203.55 million as at 31 December 2019, a sum of Rs.2.49 million represented the loan balances remained outstanding for more than a period of 05 years from 13 public institutions and any amount thereof had not been recovered during the year under review. Even though a sum of Rs.1.25 million had been stated as due from the Department of Ayurveda out of the said 13 public institution, that Department had confirmed that there was no any balance to be settled to the Corporation. | ----- Even though the Department of Ayurveda had stated that there was no balance to be recovered from that Department, it was not a correct answer and as such a letter had been issued again on 05 December 2019 informing to make payments. | ----- Recovery of loans should be made efficient. Appropriate and formal methodology should be introduced and implemented for that purpose. |

1.6.2 Payables

| Audit Observation | Comment of the Management | Recommendation |
|---|---|---|
| Loan amounting to Rs.38.06 million related to 41 creditors balance included in the total creditors balance of Rs.48.41million as at 31 December 2019 had not been settled and the period of delay had exceeded by 431 days. | As purchases had been made without formal approval, there were issues regarding the quality of the goods and the relevant quality assurance reports had not been given, some payments were suspended. | A formal internal control system on the creditors should be introduced so as to account for only the creditors possible to be brought to account and to receive the necessary supplies qualitatively and thereby payments of the creditors should be made within due timelines. |

1.7 Non-compliance with laws, rules regulations and management decisions etc.

| Reference to laws, rules regulations etc. | Non-compliance | Comment of the Management | Recommendation |
|--|---|---|--|
| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | | |
| (i) Financial Regulation 102, 103, 104,105 and Financial Regulation 108 as amended by the State Finance Circular No.02/2016 dated 12 Februry 2016. | The stock excesses worth Rs.19.88 million identified each year from 2007 to 31 December 2019 had not been included in the books and further steps had not been taken in terms of Financial Regulations on the stock shortages worth Rs.18.61 million identified each year and the damaged stocks worth Rs.4.50 million as at 31 December 2019 and action had not been taken to refer those matters to the Board of Directors. | The relevant divisions prepare and forward the reports on stock shortages and excesses to the Human Resource Division; having appointed a committee by the Human Resource Division, a separate report on stock shortages and excesses is submitted to the Board of Directors and the relevant adjustments were made on the recommendations made by the Board of Directors based on that report. | In terms of the Financial Regulations, action should be taken to identify the persons responsible for the damages and shortages and identify relevant reasons and to recover or write off the loss from books appropriately. |

- | | | | |
|---|---|--|--|
| (ii) Financial Regulation 395 (d) | Even though the monthly bank reconciliation statement should be prepared before 15 of the following month, bank reconciliation statements relevant to one current account had been prepared only up to the month of April 2019. | Payment facilities through the cards have been made available to the Navinna sale centre and due to the delay in receiving the relevant receipts by the Accounts Division, preparation of the bank reconciliations was delayed. | The internal control system should be streamlined to ensure the preparation of bank reconciliations on due date. |
| (b) State Finance Circular No.01/2014 dated 17 February 2014. | Even though an Action Plan inclusive of the details such as updated organizational structure, approved cadre, actual cadre, the Activity Plan prepare on priority basis in keeping with the annual budget, timeline of its implementation and expected output/outcome of those activities should be prepared, an Action Plan for the year under review had not been prepared. | The Capital Plan was prepared as the Action Plan for the year 2019 and the Activity Plan will be prepared from the ensuing year. | In terms of circular provisions, the Action Plan should be properly prepared within prescribed timeline and progress reports should be prepared in consistent with the Action Plan. |
| (c) Department of Public Enterprises Circular No.95 dated 14 June 1994. | Contrary to the circular provisions, the total incentive paid during the year under review and five preceding years without approval of the General Treasury amounted to Rs.432.12 million. | The fact that the employees attendance shall be at a higher level to achieve daily, monthly and annual targets of a production institute; appropriate strategies should be timely put in place to maintain optimum productivity; in case the present incentive scheme implanted on the approval of the Board of Directors is discontinued till the Treasury approval is granted , it affects the achievement of goals and targets; the possible operating loss resulting therefrom cannot be | Incentive should be paid only after the preparation of the incentive scheme so as to enhance the performance level of officers in all the divisions and obtaining formal approval thereon. It should be taken into account that the officers granting authority, approval and certification for the payment of incentive |

disregarded and that action is being taken to get approval for the payment of incentive and for the unavailed medical leave. unlawfully without formal approval are liable to surcharge.

- (d) Guidelines 4.2.1 and 4.2.2 of the Government Procurement Guidelines A Master Procurement Plan listing procurement activities envisaged at least for a period of 03 years and a Procurement Time Table describing in chronological order, steps of each individual Procurement Action, from the point of commencement until its completion had not been prepared. The Planning Division, Supply Division and the Agriculture Officers are working in unision in order to prepare a Procurement Plan in accordance with the Government Procurement Guidelines and the instructions given at the previous audit committee meetings. In accordance with the guidelines of the Government Procurement Guidelines, the Master Procurement Plan and the Procurement Time Schedule should be prepared and implemented.

1.8 General Administration on Information Technology (IT)

| Audit Observation | Comment of the Management | Recommendation |
|---|---|--|
| <p>No proper internal control had been established by each division of the Corporation to confirm accuracy of the data entered to the computer system used in the Corporation by various divisions of the Corporation. For rectifying the errors occurred in making payments for the creditors and for the accrued expenditure from the year 2011 and in the inclusion of raw and dried drugs received, free of charge, to the stores stock, adjustments amounting to Rs.15.96 million had to be made during the year under review alone.</p> | <p>The fact that an internal control system is properly in operation in the computer system presently being used by the Corporation; the data so included cannot be changed at the discretion of a single person; if there are necessary control systems to be established in the computer system, action will be taken to identify and implement such systems and that initial arrangements are underway for the establishment of a new computer system (ERP) capable of linking each division of the Corporation.</p> | <p>Internal control systems should be established externally to the computer system in order to establish the accuracy of the data entered in the computer system by all the divisions of the Corporation.</p> |

2. Financial Review

2.1 Financial Result

The operations of the Corporation for the year under review had resulted in a profit of Rs.648,204 as compared with the corresponding profit of Rs. 23.07 million for the preceding year, thus observing a deterioration of Rs.22.43 million. This deterioration was mainly due to increase in the sales cost by Rs.61.19 million and administration expenditure by Rs.6.06 million and decrease in the other income by Rs.3.10 million, though the sales income had increased by Rs.29.75 million.

2.2 Trend Analysis of the Main Income and Expenditure Items

As compared with the preceding year, sales income had increased by about 4 per cent and the sales cost had increased by 14 per cent during the year under review. However, financial income had increased by 422 per cent and other income had decreased by 44 per cent.

2.3 Ratio Analysis

As compared with the preceding year the gross profit ratio and the net profit ratio had decreased by 6 per cent and 3 per cent respectively during the year under review. Nevertheless, current ratio and the quick assets ration had increased by 0.44 per cent and 0.48 per cent respectively.

3. Operating Review

3.1 Identified Losses

| Audit Observation | Comment of the Management | Recommendation |
|---|--|--|
| Although the Corporation had received the preliminary inquiry report of the inquiry conducted by the Ministry in connection with the purchase of Unani drugs at a cost of Rs.7.32 million, 2,230 kilogram of raisins at a cost of 1.51 million, 200 kilogram of beeswax at a cost of Rs.168,000 and purchase of 1,500 kilogram of <i>Gugul</i> at a cost of Rs.1.99 million during the year 2016 and 2017, the decisions made by the Inquiry Committee of the Ministry in that respect had not been implemented even by 31 December 2020. | The fact that arrangements were made to conduct a disciplinary inquiry against the former Planning Manager in connection with the irregularities caused relating to the purchases made during the period from 2012 to 2015; that due to his resignation, steps had been taken to recover the losses through legal proceedings by lodging complaints to the Criminal Investigation Department; since it was not possible to initiate legal actions according to the recommendations of the Criminal Investigation Department, steps have been taken to file a civil case through the Legal Officer of the Line Ministry to recover this loss. | Action should be taken to implement the decisions made by the Inquiry Committee of the Ministry. |

3.2 Management Inefficiencies

| Audit Observation | Comment of the Management | Recommendation |
|--|--|--|
| (a) The recovery of public sectors' debts amounting to Rs.164.65 million as at 31 December 2019 remained at a slow and poor position. | All amounts due from the public sector for the year 2019 have been recovered. | Action should be taken to recover the public sectors' debts pertaining to the preceding years. |
| (b) As sales have been done on credit contrary to the conditions applicable to the mobile sale, the total credit balance that remained unsettled as at 31 December 2019 had been Rs.11.45 million. | In order to discourage the sales on credit and to prevent the sales carried out contrary to the loan conditions, the loan conditions will be updated from the year 2020. | Action should be taken to recover all the debts and appropriately amend the loan conditions applicable to mobile sale. |

3.3 Operating Inefficiencies

| Audit Observation | Comment of the Management | Recommendation |
|---|---|--|
| (a) Out of the 07 objectives specified in the Extra Ordinary Gazette No.14,853/3 dated 11 May 1969 of the Government of Sri Lanka, steps had not been taken to achieve the objectives of rearing cattle for the production of pure gee required for the manufacture of Ayurvedic drugs, production of honey required for drugs manufacturing, bee keeping and development of bee keeping as a domestic industry or take alternative steps therefor. | Due to the practical issues such as lack of spacious lands under the appropriate climatic condition and shortage of suitable foods, scarcity of officers and employees, lack of cold room facilities, conducive environment and necessary facilities for rearing cattle, that objective could not be achieved. Feasibility studies and preparation of project reports relating to bee keeping are in progress and action is being taken to obtain bee boxes and other necessary instructions from the Department of Agriculture. Those activities are expected to be carried out under the supervision of the Agriculture Officer recruited in the year 2017. | Action should be taken to achieve the main objectives of the Corporation or properly amend the above objectives. |

- (b) Action was being taken in accordance with the production plan and marketing plan prepared by the Corporation. Performance indicators had not been established for evaluation and performance of those activities had not been reviewed.
- According to the production plan and marketing plan, performance indicators of the production and marketing divisions have been introduced with amendments since a number of years; measures are being taken to introduce performance indicators for other divisions in collaboration with the Productivity Secretariat
- Performance indicators should be established for the evaluation of performance of each division of the Corporation and accordingly, performance of those activities should be reviewed.
- (c) As action had not been taken to introduce and maintain a management accounting system to control production cost and secure information, the Corporation had failed to properly carry out control over the production activities and the cost. Likely, proper methodologies on the production process and stores control had not been introduced and therefore, matters such as stock shortages and significant variations of the stock levels of the stores could be observed in audit. The market value of the stock shortages identified at an audit test check was Rs.2.60 million.
- The fact that the Planning Division uses information contained in the computer data base in the preparation of production plans, actual production reports, performance reports and progress reports and the documents; this information considered accurate since activities of the divisions are carried out based on such information and all activities related to the production process are carried out through the computer data base; accordingly, it is the responsibility and accountability of the store keepers and the officers in charge of the stores to accurately computerize information relating to the drugs stores; that the officers have been instructed to issue the production quantities currently issued to the stores from the production, packing and bottle filling sections under the supervision of the medical officers and to issue the production receipts issued from the computer data base at the relevant time and that a computer package is due to be introduced to the bottle section in the future.
- The progress of the production plan should be prepared according to the work sheets to be available in the production division. The relevant internal control system should be properly established. Action should be taken to conduct a formal inspection regarding this shortcoming according to the Establishments Code and Financial Regulations and thereby, loss incurred by the Corporation should be recovered.

- (d) Even though the Corporation had planned to manufacture 13 batches of drugs which were not new drugs and 1,888,376 production units under 38 new production categories, actual production was 1,422,366 units. Accordingly, expected annual production had not been reached by 466,504 units. Likely, the income that could not be reached out of the expected income of the private sector had been Rs.71.14 million or 33 per cent. Further, the income lost by the Corporation due to failure to meet the demand of the public sector for 108 production categories during the year under review amounted to Rs.58.80 million. Owing to failure in meeting this demand received from the public sector without a sales promotion effort, there was a risk of losing this specific market share. Further, the Corporation had not conducted a market survey to determine its market share and the Corporation was unaware as to whether its market share had increased or decreased among the competitive institutions.
- The fact that it was not possible to reach the planned production up to 100 per cent due to matters such as difficulties found in the supply of raw materials, repairs of the machines and equipment and changes occurred in the monthly sales demand pattern during the year; that the top management had taken steps to identify productions and raw materials required to increase the income and to prepare sales plan, production plan and procurement plan in advance by developing a proper coordination between relevant divisions and identify issues and make remedial measures and thereby, ensure the supply in commensurate with the market demand and to educate the relevant divisions in this regard; that a survey will be carried out to identify the market share in the future.
- Targets should be achieved by taking steps to set achievable goals, find firm solutions to the scarcity of raw materials and to properly manage the human and physical resources of the Production Division. Likely, measures should be taken to prepare realistic estimates and to achieve the expected sales income. Action should be taken to protect the specific market share of the public sector that can be met without making sales promotion effort.

3.4 Transaction of Contentious Nature

| Audit Observation | Comment of the Management | Recommendation |
|--|--|--|
| <p>Regardless of the objections raised by the Treasury representative of the Board of Director, Public Enterprise Department and the Department of Management Services, gift vouchers had been awarded to the staff during the year under review only upon the approval of the Board of Directors to mark the 50th Anniversary of the Corporation and a sum of Rs.2.55 million had been paid to the Corporative Wholesale Establishment for that purpose.</p> | <p>Although the Treasury representative and the members of the Board of Directors representing the Ministry had expressed their disagreement to this proposal, they had further stated that they were not against the award of a gift to the employees; the fact that approval of the Board of Directors had been received in this connection and that all the employees are awarded gift vouchers under the approval of the Board of Directors each year for the Sinhala and Tamil new year festival.</p> | <p>It should be ensured to make these types of payments only after receiving due approval by taking into account financial position and the productivity of the operating activities of the Corporation.</p> |

3.5 Idle or Underutilized Property, Plant and Equipment

| Audit Observation | Comment of the Management | Recommendation |
|---|---|---|
| (a) The herbal garden, Madawachchiya containing 5 ½ acres in extent had been extensively overgrown and only one employee had been deployed for its maintenance activities. No rest room, a permanent building to keep equipment and a specific water supply system had been established within the garden. Due to lack of proper maintenance and attention of the officers, the herbal garden had not been utilized effectively. | The fact that necessary arrangements have already been made to supply electricity to the herbal garden; action has been taken to purchase a water pump for the tube well constructed in the herbal garden; two water tanks with the capacity of 5000 liters have been purchased and installed and that weed removal activities, maintenance and new planting activities at the relevant premises have been done by the two labourers. | Necessary steps should be taken to use the herbal garden effectively and expeditiously. |
| (b) Although the Corporation had obtained 3 storied building with 3,500 square feet on rent from the year 1996 for the Wijerama Sales Centre, only ground floor of the building had been used. The first and second floors of the building had not been productively used and it remained untidy heaped with unserviceable goods. Accordingly, out of the total lease rent amounting to Rs.18,795,000 spent on this building from the year 1996 to 31 December 2019, a sum of Rs.12,530,000 had become a fruitless expenditure. | The fact that unserviceable goods have been removed at present; requests have been made to the owner of the building to renovate the sales centre; action will be taken to effectively use the unused upper floors of the building by conducting an evaluation in the future and that provision of herbal drink (<i>kola kenada</i>) carried out for 03 months under the concept of sales income diversification has been temporarily suspended due to lack of adequate income, during the year 2019. | A proper programme should be expeditiously established and implemented to use the building effectively. |
| (c) The buildings in which the sales centres in Galle and Matara were maintained had been obtained on rent and upper floors of both the buildings remained idle. | Necessary arrangements have been made at present to commence clinical activities on the upper floor of the Galle sales centre. | A proper programme should be expeditiously established and implemented to use the building effectively. |

3.6 Deficiencies in the Contract Administration

| Audit Observation | Comment of the Management | Recommendation |
|--|--|---|
| <p>The contract for the construction of two storied building at the new manufactory, Pathiragoda had been awarded to a contractual company during the year under review at a total contract value of Rs.36.86 million and a sum of Rs.11.62 million had been paid to the contractor as at 31 December 2019. A detailed bill on the completed work had not been prepared and payments had been made without recommendations on the works completed. Works had been discontinued and the site remained dysfunctional by 04 September 2020. Evaluation on the qualifications and experience of the contractual company had not been carried out in terms of Guideline 7.7 of the Government Procurement Guidelines. Further, the contractor had been selected without being obtained clarifications on the submitted unrealistic low rates as per the Guideline 7.9.11 of the Government Procurement Guidelines</p> | <p>Although instructions had been given to the officers of the Sri Lanka State Engineering Corporation, which providing the consultancy service of this project, to construct the building so as to keep 11 feet in height from the ground level of the first floor of the new two storied building, due to a mistake, the relevant plan had been drawn keeping 9 ½ feet in height; having inspected the site by the Engineers of the Sri Lanka State Engineering Corporation, it had recommended the value of variance cost of Rs.240,317 demanded by the contractor for the additional work to increase the height of the building by 450mm; necessary steps have been taken to approve this additional amount and action will be taken to carry out project activities in the future.</p> | <p>Action should be taken in accordance with the Guidelines of the Government Procurement Guidelines.</p> |

3.7 Human Resource Management

| Audit Observation | Comment of the Management | Recommendation |
|--|--|--|
| <p>Nineteen officers who had not satisfied the relevant qualifications had been appointed to act in 19 posts in excess of the approve cadre during the period from 2015 to 2019 and sums totalling Rs.2.12 million had been paid as acting allowance during the year under review alone.</p> | <p>The post of Security Guard is not included in the approved cadre and quotations for the security service have been called for from several public and private institutions on the instructions of the Board of Directors.</p> | <p>Disciplinary actions should be taken against the officers who should be responsible for making recruitments without formal approval to the posts not included in the approved cadre and paying salaries in respect of those appointments.</p> |

4. Accountability and Good Governance

4.1 Sustainable Development Goals

| Audit Observation | Comment of the Management | Recommendation |
|---|---|--|
| <p>In order to achieve the Sustainable Development Goals , even though the targets which should be achieved and indicators for measuring the progress and the gaps should be identified, the Corporation had not identified such indicators, achievements and deviations and the various fields which should be paid attention.</p> | <p>Even though it had been scheduled to prepare an Action Plan by identifying targets and indicators relating to the achievement of sustainable development goals and implement it before 30 June 2020, the expected progress could not be achieved due to the Corona pandemic situation.</p> | <p>Action should be taken to identify the targets and indicators pertaining to the achievement of sustainable development goals and evaluate the progress.</p> |