Sri Lanka Thriposha Limited -2020

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Thriposha Limited ("Company") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income and expenditure, 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. My comments and observations which I consider should be reported to the Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Thriposha Limited as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No.19 of 2018, the Company 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 Company.

1.4 Audit Scope

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

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company *;*

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal Vouchers, Payment Vouchers etc. may include under this heading.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Following observations are made

	Non - compliance with reference to the Standard	Management Comment	Recommendation
(a)	In terms of paragraph 68 of Sri Lanka Accounting Standards 01, assets that are not expected to be realized within the twelve months should be stated in the financial statements under the non-current assets. However, the fixed deposits amounting to Rs.138,304,576 had invested for over one year had been stated under the current assets in the financial statements of the year under review.	Due to the one period maturity, fixed deposit had been stated as current asset in the Financial Statements of the year 2020 and got the necessary action to present it under the non current asset in the Financial Statements.	Action should be taken in accordance with the Sri Lanka Accounting Standard.
(b)	In terms of paragraph 36 of Sri Lanka Accounting Standards 16, the entire class of property plant & equipment to which that asset belongs shall be revalued. However, carrying value of two buildings amounting to Rs.6,757,881 had not been accounted due to omission. As a result, buildings had been under stated by that amount in the financial statements of the year under review.	It would planned to conduct a discussion with revaluation department to obtain a report of revaluation regarding this assets.	Action should be taken in accordance with the Sri Lanka Accounting Standard.
(c)	Revaluation gain amounting to Rs.331,722,680 had been credited to the revaluation reserve account instead of being crediting the actual gain of Rs.383,845,970. As a result, revaluation reserve had been understated by Rs. 51,123,290 in the year under review.	It would planned to conduct a discussion with revaluation department to obtain a report of revaluation regarding this assets.	Action should be taken in accordance with the Sri Lanka Accounting Standard.

1.5.3 Accounting Deficiencies

Following observations are made

	Audit Issue	Management Comment	Recommendation
(a)	Cost of Sales of "Suposha" production for the year under review had been under stated by Rs.21,946,829 in the financial statements due to calculation error.	Cost of sales had calculated base on the Financial Statements of 2018.	Action should be taken place to identify the correct cost of sales.
(b)	Tax liability for the year under review had been under stated by Rs.42,254,661 in the financial statements.	The Inland Revenue Department and Thriposha Company had identified the tax liability in April 2021 which had shown by the audit. Necessary steps will be taken to further discuss this matter with the Inland Revenue Department.	Action should be taken to present accurate tax liability in the Financial Statements.
(c)	Fully amortized grant assets amounted to Rs.16,286,540 had been re-amortized erroneously during the year under review. As a result, revenue had been over stated and capital grant had been under stated by that amount in the year under review.	Kindly informed that necessary adjustment will do under the Financial Statements of 2021.	Action should be taken to correct the accounting deficiencies in Financial Statements.
(d)	An expenditure amounted to Rs.7,057,822 incurred for improvement of the factory building had been written off against the income as recurrent expenditure instead of being capitalized.	An amount of Rs.7,057,822 had expensed for tiling the floor of production building. Therefore it had identified as a recurrent expenditure.	Action should be taken to identify the recurrent and capital expenditure correctly.

1.6 Non-Compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to laws, Rules and Regulations etc.	Non-Compliance	Management Comments	Recommendation
Public Enterprises Circular No. PED /12 dated 02 June 2003 (i) Paragraph 7.2	An operational manual had not been prepared by covering the major aspects of the administrative setting of the Company.	The Company has an operational manual and action would be taken to update and submit it to the audit.	Action should be taken in terms of the provision of the Circular.
(ii) paragraph 8.2.2	Concurrence of the Minister of Finance should be obtained before investing temporary surplus funds. However, without obtaining the concurrence, the Company had invested a sum of Rs.302 million in a state bank.	This investment had done under the approval of board of director and circular no. PCE/02/2018 dated on 14th November 2018 had given the permission for this.	- Do -

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs.87,228,711 and the corresponding surplus in the preceding year amounted to Rs.178,135,097. Therefore an deterioration amounting to Rs.90,906,386 of the financial result was observed. The reason for the deterioration is decrease in the production income of “Suposha”.

3. Operating Review

3.1 Management Inefficiencies

Following observations are made

Audit Issue	Management Comment	Recommendation
(a) Production of Thriposha in the years 2018, 2019 and 2020 were 11,913 metric tons, 11,712 metric tons and 5,987 metric tons respectively. Accordingly, as compared with the preceding year the production of Thriposha had declined by 1.68 percent and 48.88 percent in the year 2019 and 2020 respectively.	Production of Thriposha in the year 2020 had declines 48.88 percent compare to the year 2019 due to various reasons.	Action should be taken to achieve the main objective.
(b) Even though estimated Thriposha production requirement for the supply of Thriposha supplementary food free of charge for the year under review was 18,854 metric tons only 5,987 metric tons or 32 percent to were produced. Further, 2,051 metric tons of "Suposha" were produced on commercial purposes in the year 2020 using the limited raw materials such as Maize and Soybeans where the main objective could not be fully achieved.	The year of 2020 the fund had allocated through vote on account and because of that raised the financial problems in production activities.	Action should be taken to achieve the main objective.
(c) As the Ministry of Health & Indigenous Medical Services incurs all the expenses on the raw materials used in the production, the sales income from the waste of the production process should be credited to the Consolidated Fund of the Government. However, the sum of 12.6 million being the income from the sale of waste in the year under review had not been credited to the Consolidated Fund of Government. The Government had been deprived of in that manner during the period of 10 years from 2011 up to the year under review, totaled Rs.152.5 million.	Sales income from the waste of the production had credited to welfare fund of employees after obtaining the board approval in the year 2011.	Action should be taken to credit the income earned through the sale of waste to the Consolidated Fund of the Government.

3.2 Underutilized Equipment

Audit Issue	Management Comment	Recommendation
The capacity of two grinding machines used by the Company in the production of "Thriposha" and "Suposha" were 1,800 kg per hour for Andersen I and 2,700 kg per hour for Anderson II. However, due to lack of raw materials and adequate number of employees, only one machine had been made use of at a time. As such, the machines were observed to be remaining underutilized.	The old Anderson machine was not withdrawn from use, but is used in process at present.	Action should be taken to utilize the maximum capacity of the two machines.