

Sri Lanka Ayurvedic Drugs Corporation- 2012

1. Financial statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Ayurvedic Drugs Corporation as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

- (a) Since 2012, the Corporation had not complied with the new accounting standards that should be followed when preparing financial statements.
- (b) Although the values of the preceding year should be included in the cash flow statement, it had not been so done.

1:2:2 Accounting Deficiencies

The following observations are made.

- (a) Sales had been understated by Rs.172, 363.
- (b) Expenditure on purchase of raw material had been overstated by Rs.640,809.
- (c) Expenditure on economic service charges in the year 2012 had been overstated by Rs.195, 596.
- (d) Balance of the Security Margin Account of the Letter of Credit had been understated by Rs.9,153 over the bank balance.
- (e) Although depreciation for lands and buildings for the year 2012 was Rs.1,177,639, it had been shown in the fixed assets schedule and depreciation account as Rs.294,555. Due to this, depreciation for the year had been understated by Rs.883,084 and the assets had been overstated by the same amount.

(f) Value of staff loans amounting to Rs.16,538,848 had not been shown under staff loan advances and the same had been shown under prepayments and advances in the year under review.

1.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the debtors aggregating to Rs.67,726,193 receivable to the Corporation, the value of debtors outdated over 02 years amounted to Rs.2,305,788.
- (b) An amount of Rs.193,560 was receivable in respect of drugs dispatched to a foreign High Commission in the year 2009.

1:2:4 Lack of Evidence for Audit

Evidence shown in front of the following items had not been presented to audit.

<u>Item</u>	<u>Value</u> Rs.	<u>Evidence not presented</u>
Preceding year adjustments	37,299,320	Schedules
Cost of the new administration building	18,699,420	Schedules
Cost of the demolished buildings	6,863,355	Schedules
Depreciation of demolished buildings	4,731,531	
Loans receivable from the Department of Ayurveda	1,246,419	Letters of confirmation of balances
Loans receivable from the Commissioner of Ayurveda of the Southern Province	14,407	
Loans receivable from the Ministry of Indigenous Medicine	265,597	

1:2:5 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following non compliances were observed.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non compliances</u>
(a) <u>Financial Regulations</u>	
(i) F.R.169	Although a bill should be issued to every customer for drugs purchased, it had not been so done in 5 sales outlets.
(ii) F.R.772	Necessary action had not been taken in respect of 49 drugs which cannot be used and identified at the boards of survey at the Battaramulla and Wijerama outlets.
(b) Public Administration Circular No.13/2008 of 09 February 2011	An amount of 1264 and 406 litres of fuel had been obtained exceeding the approved limit for two reserved vehicles and their values amounted to Rs.106,230 and Rs.55,654 respectively.
(c) Management Services Circular No.49 of 24 December 2012	Although the amount of bonus that could be paid to a state Corporation employee is Rs.7,500, bonus amounting to Rs.2,263,166 had been paid to the staff at the rate of Rs.10,000 each without prior approval of the Cabinet of Ministers and accordingly, a sum of Rs.607,500 had been paid in excess, contrary to the directives of the circular.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the operating results of the Corporation during the year under review was a net profit of Rs. 67,090,055 before tax and as compared with the net profit was Rs.63,878,705 in the preceding year, an increase of Rs.3,211,350 was shown in the financial results. As compared with the preceding year, receipt of donation of raw materials of Rs.10,988,882, overprovision of income tax of Rs.12,988,460 and decrease in the financial expenditure by Rs.139,888 had been the main reasons for the increase in the financial results in the year under review.

3. **Operating Review**

3.1 **Performance**

Following observations are made.

- (a) Although the planned production of the revised annual production plan of the Corporation in the year under review was Rs.374,149,606, the actual annual production was Rs.239,164,746. Accordingly, a decrease of Rs.134,984,860 had occurred in the annual production.
- (b) When comparing the estimated and the actual production, a favourable variation was noted in 07 production items and it was in a range between 20 per cent and 2842 per cent. An unfavourable variation had existed in 02 production items and it had been in a range between 11 per cent and 32 per cent.
- (c) It was disclosed that the expected targets had not been achieved when comparing estimated sales with actual sales of the corporation in 2012.

Details are given below.

	<u>Estimated Sales</u>	<u>Actual Sales</u>	<u>Unfavorable</u> <u>Variance</u>	<u>Percentage</u>
	Rs	Rs	Rs	%
Public Sector	385,488,000	} 395,757,221	(72,022,779)	15
Private	82,292,000			
Sector	-----	-----	-----	---
Entire Sales	467,780,000	395,757,221	(72,022,779)	15
	=====	=====	=====	==

As the sales to the public sector and private sector had not been presented separately, the progress of those sections could not be analyzed separately.

(d) When considering the annual sales of the Corporation, a decrease in sales of drugs such as Kwatha, Watika, Gugul and Kalka was observed.

<u>Name of Product</u>	<u>Sales</u> <u>2012</u> Units	<u>Sales</u> <u>2011</u> Units	<u>Difference</u>
Kwatha 750 ml (bottles)	65,811	84,240	(18,429)
Watika and Gugul (packets)	57,856	61,000	(3,144)
Kalka (packets)	65,150	81,526	(16,376)

(e) Nikaweratiya Randenigama Herbal Garden (Osu Uyana)

The following shortcomings were observed when inspecting the Nikaweratiya Herbal Garden (Osu Uyana) with an extent of 54 acres commenced in April 2005.

- (I) A plan relevant to the land was not available with the Corporation.
- (II) Expenditure had exceeded the income every year and a sum of Rs.3,513,844 had been spent exceeding the income during the 03 preceding years.
- (III) Thirteen, 28 and 48 types of drugs in 2010, 2011 and 2012 respectively had been obtained from the Nikaweratiya Herbal Garden (Osu Uyana). A majority of the received drugs were obtained from permanent plants (Eg: Khomba, Adathoda, Maduruthala, Walkeppetiya) and no adequate supply or cultivation had been carried out with regard to drugs (Eg: Lunuwila, Turmeric, Aloe Vera, Bitter Gourd) which could be obtained from short term cultivation.
- (IV) A plan relevant to the cultivation of the Herbal Garden was not available. Even though various herbs were cultivated on the land, it had not been properly done.
- (V) Short term herbs were cultivated and they too had been cultivated in a disorderly manner in small quantities. (Eg: Katuwalbatu, Aloe Vera)
- (VI) The officer in charge had no adequate awareness on herbs and had not identified certain herbs.
- (VII) Common herbs such as Adathoda (raw), Nika leaves (raw) and Margosa leaves (raw) alone had been obtained exceeding 500 kilograms during a year and several types of herbs had been obtained between 10 and 100 kilograms of each type during the whole year.
(Most types of herbs had been supplied less than 50 kilograms)

- (VIII) The herbal garden (Osu Uyana) contained valuable herbal plants and those places had not been identified and named. Permanent herbs (Eg: Sandalwood, Red Sandalwood) had not been included in the registers.

3.2 **Management Inefficiencies**

Following observations are made.

- (a) Following weaknesses were disclosed in respect of bank accounts.
- (I) Action had not been taken in respect of cheques older than 15 years, not yet identified and not credited to the bank, to the value of Rs.224,168 even by 04 November 2013.
 - (II) Action had not been taken to settle unidentified balances amounting to Rs.337,010 not settled and existing over 20 years even by 04 November 2013.
- (b) The motor cycle belonging to the Corporation had been used without the license and insurance certificate.
- (c) A register had not been maintained in respect of valuable types of herbs and trees in 4 herbal gardens (Osu Uyana) belonging to the Corporation.

3.3 **Operating Inefficiencies**

Following observations are made.

- (a) The following shortcomings were disclosed at the physical inspection of the sales outlets at the Battaramulla Examination Centre, Pettah, Wijerama, Janakala Kendraya and Sethsiripaya belonging to the corporation.
- (I) Lack of a number of saleable drugs with customers' demand. (Eg: Ranahansa Rasayanaya, Bees' honey, Iramusu Tea Bags, Madhuka Syrup, Thripala Tablets)
 - (II) Failure in achieving targets given to herbal sales outlets in the year 2012.

- (III) Improper maintenance of books on drugs and receipt and issue of drugs and porridge, failure in introducing a billing system for sale of porridge and calculating the quantity of porridge.
 - (IV) Existence of expired drugs and incorrect printing of the date of expiry.
 - (V) Although the prices had been revised since August 2012, failure in briefing sales outlets of same and non-preparation of a methodology in changing prices on labels.
 - (VI) Failure in strengthening the internal control system required to improve the sales in sales centres of the Corporation with more sales and minimizing losses in sales centres running at a loss.
 - (VII) Non implementation of recommendations made by the three persons Committee appointed on 25 September 2009 with regard to function of sales outlets.
 - (VIII) Shortcomings in the discount system introduced in selling of drugs.
- (b) Twenty nine work notes had been cancelled due to shortage of raw materials during the first quarter of 2012.

3.4 **Transactions of Contentious Nature**

Following observations are made.

- (a) Without paying a private firm for goods purchased at a value of Rs.194,006, a cheque had been issued to a person under the written order of the Managing Director of the Corporation and it had been obtained by himself.
- (b) Four thousand kilograms of bees' honey amounting to Rs.1,980,000, valued at Rs.495 each, rejected by the recommendations of the Drugs Purchasing Medical Committee of the Corporation and the laboratory had been purchased by a private firm on 08 June 2012.

3.5 **Idle and Under –utilized Assets**

Following observations are made.

- (a) Assets of the Nikaweratiya garden premises were under decay without proper maintenance and repair.
- (b) Action had not been taken to repair and use or dispose of 248 items of goods not in use and identified at the board of survey conducted on 31 December 2011.

3.6 **Identified Losses**

Following observations are made.

- (a) Due to failure in washing the bottles purchased, 25000 bottles in the Corporation premises had to be disposed of without being used. The purchase value of the said bottles amounted approximately to Rs.250,000.
- (b) A surcharge of Rs.5,000 had to be paid as delay in payment of rent for operating the canteen bearing No.04 at the Sethsiripaya Office Complex.
- (c) A loss of Rs.233, 400 had incurred to the Corporation due to employee inefficiency at the manufacture of Madhuka cough syrup under work note No.01283115.
- (d) The value of drugs amounting to Rs.65, 720 had been rejected from sales due to a stench in the Dharanee syrup bottles, manufactured under work note Nos. 009967 and 009979.

3.7 **Delayed Projects**

The Rajarata factory had been commenced and abandoned half way. A sum of Rs.1,775,095 had been spent for it in 2010.

3.8 **Resources of the Corporation Provided to other State Institutes**

A sum of Rs.3,000,000 had been provided by voucher No.226/10/2012 dated 12 October 2012 to initiate a World Health Organization office in New Delhi for the Ministry of Indigenous Medicine. No documentary evidence whatsoever had been presented to audit regarding its progress.

4. **Accountability and Good Governance**

4.1 **Presentation of Financial Statements**

Although in terms of Section 6.5.1 of Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements should be presented to the Auditor General within 60 days of completing the accounting year, the financial statements had been presented only on 19 June 2013. Accordingly, the delay in presentation of financial statements had been 03 months.

4.2 **Action Plan**

According to the implemented plan of the Corporation relevant to the year 2012, as a report indicating the progress had not been presented to audit, the levels of achievements of targets indicated in the Action Plan and the Corporate Plan could not be assessed

5. **Systems and Controls**

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

- (a) Storing and Stock Control
- (b) Costing
- (c) Incentives
- (d) Accounting- Software Package Utilization
- (e) Sales- Sales of Marketing Centers
- (f) Vehicles

