

Ayurvedic Drugs Corporation of Sri Lanka – 2011

1. Financial Statements

1.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2.1, 2.2.2, 2.2.3 and 2.2.4 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.

1.2. Comments on financial Statements

1.2.1 Non – compliance with Sri Lanka Accounting Standards

Reference to Sri Lanka

Non Compliance

Accounting Standards (SLAS)

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|-------------|---|
| (a) SLAS 05 | Even though the whole stock should be valued and accounted for the value of 24 items of stock had not been taken to the closing stock |
| (b) SLAS 09 | i. Although increase in current assets should be deducted from the cash flow in adjusting working capital changes it had been added.
ii. Payment of income tax and gratuities had not been disclosed in the cash flow.
iii. Provision for bad debuts had not been adjusted. |
| (c) SLAS 10 | written of unidentified debtor balances from accounts had not been disclosed. |
| (d) SLAS 18 | Depreciation policy on acquisition and disposal of fixed assets had not been disclosed. |

1.2.2 Accounting Deficiencies

The following observations are made.

- (a) In computing the profit for the year, depreciation of office equipment and motor vehicles had been understated and overstated by Rs. 739,534 and Rs. 182,700 respectively.
- (b) The insurance indemnity of Rs. 124,475 received in respect of a motor vehicle accident had been brought to account as an income instead of being adjusted to the relevant motor vehicle repair expenditure.
- (c) The value of donated drugs amounting to Rs. 68,683 included in the trade debtor balances had been credited to the finished stock account instead of eliminating from that account and as such the debtor balance and the finished stock had been over stated and understated respectively by that amount.
- (d) Income of Rs. 40,800 in the milk bar given by the National Livestock Development Board on rent basis had not been brought to account.
- (e) As the raw material drugs valued at Rs. 499,155 received as donations could not be utilized, it had not been shown as an expenditure and as such the profit had been overstated by that amount.
- (f) Advertisement and publicity expenses, stock verification allowances and credit sales had been overstated by Rs. 98,134, Rs. 426,462 and Rs. 142,204 respectively and the economic service charges of Rs. 22,007 had been understated.
- (g) As the income from interest on fixed deposits had been overstated by Rs. 488,715 the profit had also been overstated by that amount.
- (h) Trade creditors had included the fixed assets creditors balances of Rs. 213,456.
- (i) Debit balances of 9 accounts amounting to Rs. 2,559,308 and credit balances of 13 accounts amounting to Rs. 24,803,946 had been adjusted to the opening balance of Rs. 23,027,136 in the prior year adjustment account without being identified.

1.2.3 Unreconciled Accounts

The following differences were observed between the monthly sales reports and the value of sales report income accounted under non operating income.

Service income	As per Sales Reports	As per Account	Difference
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	Rs.	Rs.	Rs.
Wijerama Sales Center	2,299,550	2,151,350	148,200
Galle Sales Center	25,200	12,160	13,040
Kola kenda Income	424,955	412,435	12,520
Osu pan	38,680	35,960	2,720
Local Rice	56,130	17,119	39,011
Sales Centers Sales	35,118,743	33,984,198	1,134,545

1.2.4 Lack of Evidence for Audit

The following items could not be satisfactorily vouched in audit due to unavailability of evidence shown against each item.

Item	Value	Evidence not made available
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	Rs.	
Provision for Incentives	59,375	Detailed Schedules
Provision for Redundant Stores	2,213,229	Schedules
Award of Employees Compensation for Loss of Jobs	1,131,347	do
Provision for Income Tax prior to 2005	8,015,988	do
Prior Year Adjustment Account	37,829,242	Detailed Report
Rent Advances	271,126	Vouchers
Income Receivable	750,797	Schedule
Debtors	24,653,149	Confirmation of Balances
Finished Stock	50,823,731	Method of Computation of Factory Cost.

1.2.5 Non Compliance with Laws, Rules and Regulations etc.

The following instances of non – compliance with laws, rules, regulations etc were observed

Reference to Laws Rules & Regulations etc -----	Non – compliance -----
(a) Financial Regulation (F.R) F.R. 316 F.R. 341	A large number of books of bills not issued up to now had remained unprotected in the Navinna sales center Non- maintenance of books to record the used bill books at Nawinna sales center.
F.R. 396 (c)	Action had not been taken in respect of cheques valued at Rs. 218,872 lapsed for more than 6 months.
F.R1645 (a)	Log books had been maintained incompletely.
F.R. 1647(a) and Schedule vi of the F.R. part II	A register in respect of vehicles of the corporation had not been maintained.
Public Administration Circular no 26/92 dated 19 August 1992	Even though the state emblem should be stenciled on government vehicles emblem on motor cab No. 59-3140 and the van No. 253- 9314 had not been stenciled.
(b) Public Enterprises Circular PED/12 of 02 June 2003 Paragraph 8.3.3.1 paragraph 9.2	Incentives of Rs.25,170,347 had been paid to the employees of the corporation during the year under review without the treasury approval. Eventhough newspaper advertisements had been published to recruit the Grade II Human Resource Manager and the Grade II Finance Manager posts by incurring an expenditure of Rs. 252,392 those vacancies had not been filled even up to the end of the year under review.

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|---|--|
| (c) Procurement Guidelines No
NPA 8 dated 25 January
2006 of the National
Procurement Agency
Section 5.3.11
Section 3.5

Section 5.4.8 | Action had not been taken to obtain a bid bond in
tendering gingelly oil.

In purchasing Gingelly oil a direct purchase had been
made from only one supplier and action had been taken to
deviate from the relevant procedure.

I. In purchasing 30,250 kg of Gingelly oil valued at
Rs. 10,254,750 the performance bond had not been
obtained and the agreed supply had also not been
fulfilled.

II. Instead of dill seed valued at Rs. 485,036 rejected
before shipment in the year 2010 but imported
Kunku mappu valued at Rs. 485,033 had been
brought and this had not been submitted to the
procurement committee and not got its approval. |
| (d) Letter dated 19 February
1990 of the Secretary
to the Ministry of Plan
Implementation. | Even though legal matters should be resolved by the
Attorney General a sum of Rs. 276,768 had been paid to
external lawyers for court cases. |

2. Financial Review

2.1 Financial Results

According to the financial statements presented the operations of the corporation for the year ended 31 December 2011 had resulted in a pre- tax net profit of Rs. 63,878,705 as compared with the pre- tax net profit of Rs. 6,016,390 for the preceding year, thus showing an increase of net profit by Rs.57,862,315 as compared with the preceding year.

However, the corporation had earned a net profit of Rs. 48,536,407 during the year under review before taking into account the non – operating income. The net profit before taking into account the non- operating income. of Rs. 5,646,893 for the preceding year amounted to Rs. 369,497. The increase in net profit for the year under review amounted to Rs. 57,862,315 and the increase in closing stock by Rs. 31,876,686 receipt of raw materials valued at Rs. 10,695,200 as donation and the increase in selling price of drugs had been the main reasons for this increase.

2.2 Analytical Financial Review

	(Rs.'000)			
	2011	2010	Difference	percentage
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	Rs.	Rs.	Rs.	%
Sales	358,677	316,029	42,648	13.4
Cost of Sales	201,333	288,488	(87,155)	(30.2)
Gross Profit	157,344	87,540	69,804	7.97
Net Profit Margin %	43.87	27.70	16.17	58.38
Non – operating income	15,200	5,108	10,092	197.57
Establishment and Administration Expenses	78,225	63,043	15,182	24.08
Selling and Distribution Expenses	30,859	21,389	9,470	44.27
Current Assets	281,309	231,880	49,429	21.31
Current Liabilities	45,793	65,412	19,619	29.99
Income Tax on Revenue	18,524	1,203	17,321	1,439.8
Profit after Tax	45,353	4,813	40,540	842.3

2.3 Working Capital Management

Liquidity Ratios	Standard Ratio	2011	2010
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Current Ratio	2.1	6.14:1	2.29:1
Acid test Ratio	1.1	3.66:1	5.24:1
Stock turnover Ratio (Times)		4.73	6.6

High liquidity ratios were observed while excess working capital position was shown due to the existence of short – term investment.

3. Operating Review

3.1 Performance

The following observations are made

- (a) The estimated cost of the production of the corporation for the year under review amounted to Rs. 343,598,676 and the actual cost of production amounted to Rs. 247,289,253 The following variances were observed between the estimated units and the actual units produced.

Production -----	Estimated Production ----- units	Actual Production ----- units	Adverse Variance -----	Percentage %
Arishta (750 ml bottles)	230,400	140,351	(89,949)	(39)
Asawa (750 ml bottles)	148,800	124,483	(24,317)	(16)
Choorna (gram)	34,094	23,823	(10,271)	(30)
Kalka leha (gram)	21,445	18,606	(2,839)	(13)
New Products	11,884	5,050	(6,834)	(57)
Kwatha (750 ml bottles)	131,639	71,603	(60,036)	(46)
Rasa (gram)	3,402	1,978	(1,424)	(42)
Sirup (750 ml bottles)	32,797	21,812	(10,985)	(33)
Thaila (750 ml bottles)	176,226	134,490	(41,736)	(24)
Watigugul (gram)	18,772	12,114	(6,658)	(35)

- (b) In comparing the estimated sales and the actual sales of the Corporation in the year under review the expected targets had not been achieved as follows.

	Estimated Sales	Actual Sales	Adverse Variance	Percentage
	Rs.	Rs.	Rs.	%
Public Sector	337,992,008	247,591,997	(90,400,011)	(27)
Private Sector	124,311,000	111,085,939	(13,225,061)	(11)
Total Sales	462,303,008	858,677,936	103,625,072	(22)

- (c) Sales of following products had decreased during the year under review as compared with that of the preceding year.

Type of Product	Year 2011	Year 2010	Difference	Percentage
	(units)	(units)	(units)	%
Arishta	125,362	159,576	(34,214)	21.40
Asawa	109,512	148,595	(39,083)	26.30
Leha	7,472	9,031	(1,559)	17.26
Choorna	64,574	67,848	(3,274)	4.83

- (d) Increase in selling prices of all products by 10% at the beginning of the year under review had been the reason for the increase in sales income. However, sales of main products such as Arishta, Asawa, Leha and Choorna had dropped and the sales of new products had increased, Accordingly, the growth in the financial results had been due to increase in selling price but not due to the efficiency.

3.2 Idle and Under –utilized assets

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- (a) The accounting software set up by incurring and expenditure of Rs. 1,971,201 had not been utilized for accounting purposes further a sum of Rs. 133,669 had been paid annually as a service charge.
 - (b) For the manufacture of wine 24,780 bottles valued at Rs. 1,011,767 and 30,000 Kirala Lids valued at Rs. 667,500 had been purchased by the Corporation and they had been sufficient for the period of 17 years according to the production capacity

3.3 Uneconomic Transactions

A sum of Rs. 416,130 had been spent for the purchase of 43 kg of unpurified mercury in excess of the annual quantity of requirement approved by the Procurement Committee.

3.4 Unidentified Losses

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- (a) As action had not been taken to procure Gingelly oil from the other suppliers who submitted minimum quotations but rejected the samples and the successful suppliers an estimated loss of Rs. 1,047,270 had incurred.
 - (b) Suppliers who had rendered quotations at Rs. 339 and Rs. 349 for the purchase of Gingelly oil had been rejected and the quotation received for Rs. 352 had been selected. As a result, the loss sustained by the corporation amounted to Rs. 393,250
 - (c) The Loss incurred from the osu uyan during the year under review, amounted to Rs.1,357,498.
 - (d) Amurtharishtaya valued at Rs. 119,536 which had been a substandard product had been kept unutilized in the stores.
 - (e) Kameshwara modakaya valued at Rs. 199,777 had destroyed as non usable.
 - (f) According to the annual procurement committee decision, the present market value should be considered in purchasing of drugs raw material. However a loss of Rs. 75,000 had been incurred, irrespective of the present market price in purchasing Garlic.
 - (g) A sum of Rs. 2,380,500 had to be paid according to a court decision in response to a court case filed against the corporation by an interdicted employee.

- (h) Demurrage charges amounting to Rs. 33,832 be recoverable in respect of drugs raw materials supplied subsequent to the date of order in the year. had not been recovered.
- (i) Out of the provision for bad debts, a sum of Rs. 4,305,720 and a sum of Rs. 431,196 from the profit for the year had been written off from books, being non-compliance with conditions and requirements stated by the Treasury for the write off past due debtors amounting to Rs. 4,736,916 from books.
- (j) Action had not been taken in respect of cheques valued at Rs. 898,187 deposited in the bank but not realized and brought forward for 20 years.

3.5 Delayed Projects

- (a) A sum of Rs. 141,667 given to the Ayurvedic Drugs Corporation by the Ayurvedic Research Institute in the year 2011 for laboratory tests had not been utilized for project activities.
- (b) The following projects had been commenced but stopped half way.

	<u>value</u>
	Rs.
construction of Rajarata factory	1,775,095
Construction of stores complex	225,056

3.6 Staff Administration

Key posts of Finance Manager, Internal Auditor and Supplies Manager had not been filled and other Managers had been appointed to cover up duties of such posts.

45. Accountability and Good Governance

4.1 Presentation of Financial Statements

Accounts should be presented to the Auditor General within 60 days after the closure of the year of accounts in terms of paragraph 6.5.1 of the Treasury Circular No. PED/12 dated 02 June 2003. Nevertheless the Corporation had presented the accounts on 05 April 2012.

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) Sales of Marketing Centers
- (c) Costing
- (d) Personnel Management
- (e) Production Incentives
- (f) Accounting Software Package Utilization