

## **Sri Lanka Thriposha Limited – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Thriposha Limited for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 2018, 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**

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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**

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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 Limited's ability to continue as a going concern, disclosing 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 Limited's financial reporting process.

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

## 1.4 Auditor's Responsibility for the Audit of Financial Statements

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

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements.**

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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.

### **1.5.2 Non-Compliance with Sri Lanka Accounting Standard**

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<b>Non - compliance with reference to the Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
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Sri Lanka Accounting Standard 7		
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(i) According to the paragraph 20 of the Standard, the cash flow generated from the operating activities had been calculated without adjusting the loss of impairment of assets amounting to Rs.87,285, amortization of Government Grant amounting to Rs.56,379,502 and income of interest on investment amounting to Rs.5,183,872 which should be adjusted	Actions to be taken to rectify the matter when preparing financial statements for the year 2019.	According to the Sri Lanka Accounting Standard 7, the cash flow statement should be prepared accurately and should be presented to audit.

to the profit when preparing the statement of cash flow using indirect method.

- (ii) According to the paragraph 21 of the Standard, the cash flow generated from the investment activities had been calculated omitting investment made in fixed deposit amounting to Rs.9,400,000 withdrawals of fixed deposits amounting to Rs.1,500,000 and interest income received in cash amounting to Rs.4,885,125.
- (iii) The cash flow generated from the financial activities had been calculated without adjusting the Government Grant of Rs.70,910,660 which had been received in cash.
- (iv) The relevant officers were failed to confirm the accuracy of interest income on investment amounting to Rs.642,143 which had been included in the cash flow.

### 1.5.3 Accounting Deficiencies

#### Audit Observation

#### Management Comment

#### Recommendation

(a) The interest income on fixed deposits relating to the year under review amounting to Rs.1,540,426 had not been taken into accounts and the interest income on fixed deposits relating to the previous year amounting to Rs.1,286,504 had been taken into accounts considering as the income for the year under review.

Actions to be taken to rectify the matter when preparing financial statements for the year 2019.

Actions should be taken to post the income relating to the year under review into accounts correctly on accrued basis.

(b) Accrued expenditure as at 31 December 2018 amounting to Rs.1,597,121 had not been taken into accounts and a sum of Rs.91,425 paid in the year 2019 as expenses relating to the said year had been debited to the accrued expenditure

Actions to be taken to rectify the matter when preparing financial statements for the year 2019.

Actions should be taken to post the expense relating to the year under review into accounts correctly on accrued basis.

account as at 31 December 2018.

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

<b>Reference to laws Rules and Regulations etc.</b>	<b>Non Compliance</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) Financial Regulation 756 and 757 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka	Although Board of Survey should be carried out for every year, Board of Survey had not been carried out for the year under review.	A committee was appointed to carry out Board of Survey for the year under review and relevant activities were already commenced and actions to be taken to submit a copy of the Board of Survey report in future	Actions should be taken to submit reports to the Auditor General within due period of time after carrying out a Board of Survey as per the Financial Regulations.
(b) Public Enterprises Circular No. PED /12 dated 02 June 2003			
(i) Paragraph 7.2	An operating manual had not been prepared as covering the major elements of the control environment of the Company.	Actions were taken to prepare an operating manual.	An operation manual should be prepared so that the main areas of the company's control environment can be identified.
(ii) Paragraph 9.12	A medical fund had been established and implemented without the approval of the Department of Public Enterprises and the balance of the said fund as at 31 December 2018 was Rs.209,447.	This medical fund was established during the period of which the Thripasha Limited was governed under the Ceylon Tobacco Company. In the event of taken over	Actions should be taken to obtain the approval of the Department of Public Enterprises

the Company by the Government the company had agreed to provide medical facilities as per the paragraph 6 of the agreement entered into between the Thriposha Limited and Trade Unions before the Commissioner of Labour.

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| (c) Guide Line 4.2.1 of the Government Procurement Guideline and paragraph 4.2.1 of the Procurement Manual. | The procurement plan and the procurement time table for the year under review had not been prepared properly. | The procurement plan was prepared for the year under review and a copy was submitted to audit. The procurement plan for coming years to be prepared considering the matters mentioned in 4.2.1 of the procurement Guideline. | The procurement plan should be prepared properly as per the Government procurement Guideline and the Manual. |
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## 1.7 Non Compliance with Tax Regulations

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
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According to the paragraph 03 (a) of the Inland Revenue Act No.10 of 2006, actions had not been taken to calculate, take into accounts and to pay tax in connection with the tax liability on the net profit of Rs.120,543,597 which had been earned by introducing a new product namely “Suposha” since March 2017 and interest income of Rs.12,143,878 relating to fixed deposits and Treasury Bills.	Actions to be taken for necessary actions after a discussion in this regard.	Actions should be taken to pay tax as per the provisions of the Inland Revenue act No. 10 of 2006.

## 2 Financial Review

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### 2.1 Financial Results

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The result of the operations of the year under review was a surplus of Rs.78,640,973 and the corresponding surplus for the previous year was Rs.63,850,252. Accordingly an improvement of Rs.14,790,721 was observed in the financial result. Increase of sales of Suposha and other income had mainly affected to this improvement.

## 3 Operating Review

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### 3.1 Management Inefficiencies

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Audit Observation	Management Comment	Recommendation
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(a) The following observations are made in connection with the procurement of supply of 600 metric tons of milk powder, the requirement of the year 2018. (i) The lowest bid of Rs.810 per one kilogram of milk powder submitted by the Milco Company was in a high rate than the market price. Hence the Cabinet had decided to get reduce the price after having a discussion. Although the normal price of a kilogram of milk powder in the market was around Rs.690, the Milco Company had agreed to supply a kilogram at Rs.798.	The Milco Company had agreed only to supply 600 metric tons of milk powder on the rate of Rs.798. But in the previous order, the profit earned by the Company on the supply of 43,175 kilograms at the reduced price was Rs.518,100.	The normal price of one kilogram of milk powder in the whole sale market was Rs.690. Hence as per the Cabinet Decision the Milco Company should get agreed to a price almost to the price of the market and, if it was impossible to get agreed it should be taken a decision informing the Cabinet. Without doing so, 600 metric tons of milk powder had been purchased at a price exceeding the normal market price by Rs.108. A proper investigation should be carried out in this regard.
(ii) The purchase order with the decision of reducing the price by Rs.12 per kilogram had been sent to the Milco Company in a delay up to 18 April 2018. As a result the advantage of reducing the price since February 2018 amounting to Rs.1,055,100 had lost to the Company.		

(b) The following observations are made in connection with paying incentives for employees.

(i) Incentives of Rs.66,772,000 had been paid during the period from the year 2012 to the year 2018 without evaluating the performance of the employees. Actions had not been taken to prepare a proper methodology for calculating incentives and to obtain the approval of the General Treasury.

(ii) Expenditure relating to all raw materials for the production process was incurred by the Ministry of Health, Nutrition and Indigenous Medicine. Therefore the income generated from the sales of wastage should be credited to the Consolidated Fund. However income of sales of wastage amounting to Rs.22,558,357 had been utilized for paying incentives without being credited to the said Fund.

It was informed that there were no objection of the Department of Public Enterprises for paying incentives and incentives were paid annually on the approval of the Board of Directors after evaluating the performance of the employees annually. Further Treasury funds were not obtained in this regard and funds earned from interest income and sale of wastage were used for the matter.

(i) Although It had been informed that there were no objection of the Department of Public Enterprises for paying incentives, a proper methodology for paying incentives should be prepared and approval of the General Treasury should be obtained because, it had not been prepared a proper methodology for calculating incentives, approval of the Treasury had not been obtained thereon and incentives had been paid without evaluating the performance of the employees.

(ii) Income generated from sale of wastage should be credited to the Government income.

(c) Maximum, minimum and reorder level relating to stock management of raw material had not been estimated. Hence purchasing, storing and issuing of raw material had not been properly done.

Actions to be taken to determine the maximum, minimum and reorder level relating to stock management of raw materials.

Actions should be taken to estimate and maintain the stock levels of management of raw material stock and to maintain the purchasing of stock, storing and issuing properly.



### 3.2 Deviations of Main Objectives

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Audit Observation -----	Management Comment -----	Recommendation -----
<p>Although the requirement of 750 gram packets of Thriposha which was issued free of charge to pregnant and breast feeding mothers and children for the year under review was 17,445,180, only 16,071,900 had been supplied. Deviating the main objectives, 1,373,280 packets of 750 grams of Thriposha had been under supplied whilst packets of Suposha gram 100, gram 250, gram 500 and gram 750 which had been introduced to the market in commercial purpose had been issued by 269,400 packets, 3,666,874 packets, 201,336 packets and 2,087,460 packets respectively.</p>	<p>The prominent objective of the Thriposha Company is to supply Thriposha free of charge to pregnant and breast feeding mothers and low weight children younger than 5 years. Out of the total production of the year 2018, the production of Thriposha represented 82 per cent and the Suposha was 18 per cent. Accordingly it was appeared that the Thriposha Company had not deviated its main objective.</p>	<p>Actions should be taken to get fulfilled the main objectives before getting other objectives.</p>

### 3.3 Underutilized equipment

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Audit Observation -----	Management Comment -----	Recommendation -----
<p>As a result of purchasing a new grinding machine with high capacity, Rs.3,866,667 cost of the old grinding machine could be use further had remained underutilized.</p>	<p>The old machine is being used in the occasions where necessary.</p>	<p>Actions should be taken to utilize the old grinding machine effectively.</p>

### 3.4 Procurement Management

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Audit Observation -----	Management Comment -----	Recommendation -----
<p>(a) An employee rest room and boiler room had been constructed in the years 2017 and 2018 incurring Rs.1,790,732 and Rs.3,650,000 respectively and the following observations are made in connection with the said two constructions.</p> <p>(i) According to the Guideline 5.3.11 of the Government Procurement Guideline, bid bonds had not been obtained.</p> <p>(ii) Contrary to the Guideline 5.4.4 of the Government procurement Guideline, 50 per</p>	<p>Actions were not taken to have a bid bond, even though 20 per cent of the contract sum should be paid as mobilization advance, instead 50 per cent had been paid, Even though, some percentage had not been remained, actions were taken to</p>	<p>Actions should be taken as per the Government procurement Guideline in procurements.</p>

cent advance had been issued for the construction of employee's rest room without obtaining an advance bond.

- (iii) According to the Guideline 5.4.6 of the Government procurement Guideline, retention money had not been retained as cover as the period of guarantee.

obtain a performance bond for Rs.180,000 represents 10 per cent of the total value.

- (b) The following observations are made in connection with the procurement of 6,000 metric tons of Soya beans of which the requirement of the year under review.

- (i) The Cabinet procurement Committee appointed on the year 2017 had not completed the procurement even up to 08 February 2019. Hence the requirement of soya beans for the year under review had to be purchased on limited competitive biddings.
- (ii) Although soya beans had been purchased at Rs.110 per kilogram during the period from October 2016 to February 2018, after the month of February 2018 soya beans had been purchased in a price range of Rs.128.60 to Rs. 137.60 in 10 instances on the limited competitive bidding process.

Actions were taken to purchase soya bean calling limited quotations on the decision of the Board of Directors until the Cabinet procurement process relating to 6000 metric tons of soya bean will be completed as per the approval of the Cabinet and in such events the procurement committee was decided to select the bidder who had submitted the lowest quotation.

Actions should be taken to complete the procurement activities within the procurement time period without delay and actions should be taken to minimize the risk which can be occurred due to delays.

- (c) The purchase order for 10,000,000 polythene bags which necessary for packing Thripasha had been issued on 29 June 2016 and the supply should be completed as at 31 December 2017. However the said order had not been completed even up to 07 February 2019 the date of audit. Although the period of validity of the performance bond had expired on 30 April 2018, actions had not been taken to extend the period of validity. Liquidated damages could not be recovered due to unavailability of a condition in the agreement for recovering liquidated damages.

This 10,000,000 polythene bags were purchased for the year 2016/17 and the production was doubled after installing the new Anderson machine in the year 2016 and the packing process had to be efficient compared with the increase of production hence 3 packing machines were purchased and installed .As a result the manual packing process was reduced and polythene bags could not be purchased as planned. This was not a fault of the

Actions should be taken to place orders according to a proper plan and to get extend the validity period of the performance bond. A condition for liquidated damages should be included in every relevant agreement.

supplier and actions were not taken to extend the validity period of the performance bond after the date of 01 April 2018.

(d) The following observations are made in connection with the procurement of 900,000 craft paper bags need for packing of Thriposha for the years 2017/2018.

(i) The purchase order for 300,000 Kraft bags had been issued to the second lowest bidder for Rs.33.30 per bag in the condition of supplying the first stock of bags within 05 days and the entire stock within 3 months. However the order had supplied as lots after 20 days and only 146,700 bags had been supplied within 3 months from the date which the order placed. However any condition relating to liquidated damages had not been included into the agreement and as a result liquidated damages could not be recovered.

Supply of goods was commenced after entering into agreement and even though the order was handed over on 08 March 2017, the agreement was signed on 21 March 2017. As per the agreement supply was commenced on 07 days after the signed agreement in 28 March 2017, it was not mention in the agreement that,300,000 Kraft paper bags should be supplied within 3 months and actions were taken to purchase Kraft paper bags on the requirement of production and in dry weather condition prevailed in the year 2017, corn and soya bean could not be purchased as planned thus the amount of 300,000 Kraft paper bags had to be purchased up to October 2017.

In procurement, conditions of orders and the agreement should be prepared similar to each other. Purchasing should be made economically and in the events of negligence the additional cost should be recovered from the responsible officers.

(ii) The average monthly bag requirement was in a range from 31,000 to 60,000 even though the purchase order for supplying of rest of 600,000 Kraft bags could be awarded to the lowest bidder who willing to submit the stock after 3 months and had submitted the price as Rs.28.32 each , instead bids had been re called. Hence bags had to be purchased at over rate of Rs.45.25 per bag from the supplier who had supplied 300,000 bags. As a result the

additional cost incurred thereon was Rs.10,158,000.

#### **4. Accountability and Good governance**

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##### **4.1 Sustainable Development Goals**

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
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All Statutory Institutions should be functioned in accordance with the 2030 Agenda for Sustainable Development adopted by the United Nations and the Company had not aware about agenda for the year 2030 as to how to act with respect of activities under their purview for the year under review. Hence the Company had not taken actions to identify sustainable development goals and targets under their purview and achievements for that targets and indicators to measure the achievements.	Actions will be taken in future in this regard.	Actions should be taken by the Company to identify sustainable development goals and targets under their purview and achievements for that targets and indicators to measure the achievements.