

Sri Lanka Thriposha Limited - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Sri Lanka Thriposha Limited for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit or loss, 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 report to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, 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 on the matters described in paragraph 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 intend 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 (Auditor's Responsibility on 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 skepticism 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 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.

1.5.2 Non-compliance with Sri Lanka Accounting Standards

Noncompliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) Although the amounts to be charged or paid within the ensuing 12 months after the reporting period should be indicated separately under current assets and liabilities and amounts to be charged or paid in periods of more than 12 months should be indicated separately under non-current assets and liabilities according to paragraph 61 of Sri Lanka Accounting Standard 01, housing loans and distress loans totalling to Rs.81,281,167 to be recovered from the employees of the Company had been indicated under current assets and employee gratuity allocation totalling to Rs.79,162,809 had been indicated under non-current liabilities.	As pointed out by the audit, action will be taken to identify these loans separately as non-current assets and current assets and to present them in the financial statements.	Financial statements should be prepared in accordance with Sri Lanka Accounting Standards.

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| (b) | Although the gratuity expenditure allocated to employees during the year amounting to Rs.4,890,967 the calculated interest expenditure for that amounting to Rs.5,946,130 and the calculated surplus amounting to Rs.7,120,719 should be indicated separately in the profit and loss statement according to paragraph 57 (d) of Sri Lanka Accounting Standard 19, the Company had shown only the net value of the above calculations under direct expenses in the financial statements. Furthermore, gratuity had been allocated for 04 employees, who had completed 62 years even though it had been stated that the retirement age of the employees as 60 years in Note 1.3.1 (a) of the financial statements. | The gratuity expenditure will be presented in the financial statements in the future as pointed out by the audit. | Financial statements should be prepared in accordance with Sri Lanka Accounting Standards. |
| (c) | Although depreciation should be initiated from the date that an asset has been made available for use according to paragraph 55 of Sri Lanka Accounting Standard 16, buildings, machinery and equipment costed at Rs.207,680,030 had not been depreciated in the year under review. | Although these assets had been made in to utilizable level, utilization of assets had not been initiated due to the shortage in raw materials and therefore, these assets had not been depreciated in the year 2022. | Financial statements should be prepared in accordance with Sri Lanka Accounting Standards. |

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Adjustments had not been made in the financial statements for Stock losses totalling to Rs.11,816,487 comprised of Rs.7,753,966 for Thriposha waste of 34,877.5 kg with a sales value prevailed as at 31 December 2022 and Rs.4,062,521 for 13,328 kg of Suposha waste. Adjustments had not been made in the financial statements for the sales value amounting to Rs. 4,820,576 for the stock of 8,903.25kg, included in the stock, returned from Ratnapura district.	The total amount of Thriposha waste that had been actually weighed and identified as at 31.12.2022 had been 212,850 kg and the stock had been identified as an income at the time of selling the stock.	Necessary adjustments should be made in the financial statements of the year 2023.

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| (b) | Out of the waste of 117,785 kg with a sale value identified by the company in the production process in the year under review, the sale value of the remaining 19,010 kg of waste in hand as at 31 December 2022 had not been identified and accounted. | The value of this waste cannot be precisely estimated because it can be disposed of without a financial value. | Wastes with a sales value should be identified and disclosed in the financial statements. |
| (c) | Although the total amount of fixed deposits held by the company as at 31 December 2022 had been Rs.273,939,324, the value of the fixed deposits had been over stated by Rs.17,313,010 as the value of fixed deposits had been indicated as Rs.291,252,335 in the financial statements. | That the Company had calculated the value by calculating the interest income related to the year on an accrual basis and capitalizing it to the value of the relevant fixed deposits according to the financial statements, the value of the fixed deposits and the interest income receivable will be presented in future financial statements separately based on the liquidity of the current assets. | Interest income should be accounted in order to separately identify the interest receivable. |
| (d) | As interest income for treasury bills amounting to Rs.1,276,635 had been adjusted to the treasury bill account, the value of the treasury bills held by the company as at 31 December 2022 had been overstated by the same value and the interest income account receivable had been under stated by the same value. | That the interest income receivable had been adjusted to the treasury bill account, that the treasury bill value and the interest income receivable will be presented separately in the future financial statements based on the liquidity of the current assets. | Interest income should be accounted in order to identify the interest receivable separately. |

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

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation	
(a)	Sections 20 (1) and 20 (2) of the Value Added Tax Act No. 14 of 2002	Value added tax totalling Rs.12,892,885 had been paid in 39 instances during the year under review without obtaining a formal tax invoice.	That tax invoices are being systematically issued by those institutions at present.	Action should be taken in compliance with the provisions of the Act and written evidence must be submitted to the audit to substantiate that the

tax money paid without formal tax invoices had been remitted to the Inland Revenue Department.

(b) Guidelines on Corporate Governance and Operational Manual for State Owned Enterprises issued by the Department of Public Enterprises on 16 November 2021

- (i) Paragraph 7.5 of the Guidelines
- Although an Institute should prepare performance reports quarterly, half yearly and annually and the performance reports should be submitted to the relevant Line Ministry and the Department of Public Enterprises, the Company had not prepared and submitted the performance reports.
- That a monthly performance report will be forwarded to the Company of Directors, which includes the officials of the Ministry of Health and the representative of the Ministry of Finance, and that the same performance reports will be submitted to the Department of Public Enterprises in the future as per the audit recommendations and the relevant Guidelines.
- Action should be taken as per the provisions of the Guidelines.
- (ii) Paragraph 3.2 (v) of the Operational Manual
- Even though the approval of the Director General of the Department of Public Enterprises should be obtained in the payment of incentives, an incentive amount of Rs.12,698,290 had been paid to all the employees of the company in the year under review as a targeted allowance from
- The Company was inclined to make profits with the production of Suposha started in 2017, and 10 percent of the profit was given to the employees annually subject to the approval of the Minister in charge of the Line Ministry and the approval of the Company of Directors for motivating the employees, several
- Action should be taken as per the provisions of the Operational Manual.

Suposha sales without meetings were held with obtaining such an the Director General of the approval. Department of Public Enterprises to systemize the payment of this allowance, and the Company predicted monthly production targets from the year 2021 and made necessary arrangements to provide a monthly allowance based on those production targets according to the oral instructions and agreements reached at the discussion sessions, That the necessary action will be taken in the future to obtain the relevant written approval from the Department of Public Enterprises as pointed out by the audit.

- (c) Paragraph ii of Management Services on salaries and allowances has not been given to the Company of Directors and although the prior approval of the Treasury Operations Department has to be obtained for all allowances made as additional payments, the company had paid the following allowances without the approval of the Department of Treasury Operations.

- (i) An additional allowance of Rs. 10,000 had been paid from the Suposha account under approval of the Company of Directors to the Marketing Manager appointed in respect of the production of Suposha introduced in the year 2017, and a sum totalling Rs. 120,000 had been incurred thereon in the year under review. Although the Company had been registered as being fully-owned by the Government, the Company does not depend on Treasury grants at present day. Although capital grants are provided in specific instances, no capital provision has been provided thus far since the year 2021. Hence, in order to promote the sale of Suposha, a commercial product, the said allowance had been paid to the manager through the Suposha account under approval of the Company of Directors. Provisions of Circulars should be followed.
- (ii) In terms of the Public Enterprise Circular No. 02/2022 dated 18 January 2022, a monthly telephone allowance of Rs.1,000 was paid to tertiary level officers of the company who are not entitled to telephone allowances from 14 March 2019 and for 07 officers working in MA 1-1 and MA 2-1 positions from 15 July 2019 on reimbursement basis with the approval of the Board of Directors. Since the company is an organization that continuously carries out production activities for 24 hours a day, these officers have to be contacted through telephone lines in some cases even though they completed their duties, and similarly, since you have to contact the institution when you go to other institutions for official work, the monthly telephone expenses will be reimbursed subject to a maximum of Rs.1,000 upon the approval of the Board of Directors. Proceed as per circular provisions.

(iii)	A sum totalling Rs. 720,000 had been paid in the year under review as transport allowance to 05 officers each receiving a sum of Rs. 12,000 per month although they had not been eligible for such an allowance in terms of Public Enterprises Circular, No. 01/2015 (ii) dated 14 January 2022.	Taking into account the cost-benefit analysis relating to the group transport facilities being provided by the Company for the middle level managers entitled thereto in terms of Public Enterprises Circular, No. 01/2015 dated 2015/05/25 and as there were 02 shifts through 24 hours a day, the fuel allowance had been paid to those managers under approval of the Company of Directors.	Provisions of Circulars should be followed.
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(d) Government Procurement Guidelines

(i) Paragraph 4.2.2 (a)	It is necessary to prepare a procurement time schedule describing in chronological order, steps of each individual Procurement Action, from the point of commencement until its completion. However, it had not been done so by the Company.	Action will be taken in terms of recommendations of the Audit to prepare a summarized register with respect to each procurement action.	Action should be taken in terms of provisions of the Government Procurement Guidelines.
(ii) Paragraph 2.9.1 of Guideline 32 amended on 15 March 2017.	The amount in full would be paid to the members of the Procurement Committee and the Technical Evaluation Committee only for procurements completed within the specified time frame, but despite the lack of a Procurement Plan with a specific time frame, the	A procurement time frame is followed with respect to each procurement activity at present.	Action should be taken in terms of provisions of the Government Procurement Guidelines.

Company had paid a sum of Rs. 1,497,000 to the members of the said Committees in 45 instances during the year under review.

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| (e) | Commissioner of Inland Revenue's letter No. CGIR/2021/02-02 2021 dated 09 April 2021 | Even though every company is required to send details of VAT payments to suppliers through e-mail to the Commissioner of Inland Revenue, the company had not done so. | VAT payment details are currently being forwarded to the relevant email address as pointed out by the audit. | The instructions of the Inland Revenue Commissioner's letter should be followed, and the written evidence confirming that all reports were forwarded to the Inland Revenue Department should be submitted to the audit. |
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2. Financial Review

2.1 Financial Results

The operating result of the year under review was a loss of Rs. 48,310,073 as against the profit of the preceding year amounting to Rs. 105,520,305, thus observing a deterioration of Rs. 153,830,378 in the financial result. This deterioration had mainly been attributed by the damage on stocks caused due to expiration of produced stocks.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comment of the Management	Recommendation
The remaining stock of raw materials such as, maize, soya, milk powder and minerals as at 31 December of the year under review represented less than 20 per cent of the stock collected during the year. However, the remaining stock of vitamins stood as high as 72 per cent of the collected stock. Of the stock of vitamins weighing 5,425 Kg existed as at 31 December 2022, an amount of 4,425 Kg costing Rs. 4,973,072 had expired during the year 2022.	The vitamin premix being used for producing Thripasha is not available in the local market. As such, that item is purchased from importers at once or twice based on annual requirement. After placing the order, more than one month will elapse until the purchase of stocks is made. That product is solely manufactured for Sri Lanka Thripasha Limited.	Possibility of obtaining the other raw materials should be forecasted, and stocks of milk powder, vitamins and minerals should be purchased accordingly thereby avoiding the losses caused due to expiration.

3.2 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) According to the annual survey as at 31 December 2022, the stock of Thripasha as at that day was 180,765 Kg, but as per financial statements of the year under review, the stock of Thripasha was 4,477.5 Kg as at 31 December 2022. The remaining stock of 176,287.5 Kg had been recognized as waste due to short expiration. However, that stock of Thripasha had remained at the stores of the Company even by May 2023.	This is the first time that such a large quantity of Thripasha has been wasted. Eighty per cent of the stock identified as waste, has been sold and necessary action has been taken to sell the remaining stock as waste.	Action should be taken to avoid wasting, whilst selling the existing waste without delay.
(b) Soya beans and maize sufficient for 14 days should be stored to ensure an optimum production process. Nevertheless, the overall capacity of stores owned by the Company is 300 metric tons which is sufficient for 03 days of production. Although approval had been received by the Department of National Planning in the year 2021 to expand the storage capacity, it could not be done even by 10 May 2023.	The plan for capital expenses prepared in accordance with budget proposals of the year 2021, had been forwarded to the Department of National Budget after being consented by the Department of National Planning. Although that request had been made to the Department of National Budget several times, the provision had not been received by the Company due to current economic crisis in the country.	Priority should be given to expand the storage facilities.
(c) The ISO 22000 certification on food safety management given by Sri Lanka Standards Institution and international certification of the World Food Programme had not been obtained for products of the Company even by 27 March 2023.	Necessary action has been taken in this connection. Obtaining the certification was delayed due to lack of provision. Discussions are in progress on the possibility of obtaining capital provision from the World Food Programme in this regard.	Those certifications on standard should be obtained without delay.

3.3 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>(a) An analysis should be carried out on the waste in average of each raw material being used in the production process, thus determining the percentages of such normal wastage. Nevertheless, no forecast had been made on the wastage resulted in after and before the production out of the value of raw materials being used in the production process. As such, the normal and abnormal wastage could not be identified. According to the information made available to the Audit by the Company, 3,228,715 Kg of raw material had been used in production process during the year under review whereas the total production weighed 2,751,863Kg. Accordingly, the wastage was 476,852Kg representing 14.77 per cent of the total amount of raw materials. As per the information furnished, 117,785 kg of waste was identified by the Company as having a sales value whereas the unidentified wastage was 359,067 Kg representing 3.65 per cent and 11.12 per cent respectively of the raw materials used.</p>	<p>Optimal utilization of raw materials can be reached in case of a continuous production process, if not, an unusual waste of stocks would result in. As testing on Aflatoxin levels had begun, action had been taken to separately identify the waste vis general waste and unusual waste.</p>	<p>Percentage of the waste occurred generally during the production process should be identified and analysed thus identifying the reasons therefor. Necessary action should be taken by determining the responsibility for such an unusual waste.</p>
<p>(b) It was observed that the Company was inclined towards producing Suposha rather than producing Thriposha, the main objective of establishing the Company. This situation was mainly attributed by the fact that the Company had paid a target allowance of 5 – 10 per cent of the sales income of Suposha products. Thus, it was observed that production of Suposha had been on the increase as compared to the production of Thriposha during the preceding years. In case of taking action to make a target allowance to the employees of the Company, it should be done based on all products of the Company, and a proper methodology should be prepared in that connection and approval should</p>	<p>An additional/target payment is not made on the production of Thriposha, the main product of the Company. Several meetings were held under patronage of the Director General of the Department of Public Enterprises, and proposals were made therein that a target allowance be paid based on targets relating to Suposha products. Written approval in that connection will be obtained in due course. As a target allowance is paid to the employees of the Company</p>	<p>In case of paying an allowance based on targets, such a target should be based on all the products of the Company. A formal methodology should be prepared and approval should be obtained thereon.</p>

be obtained thereon.

based on profits generated by the products of Suposha, such an allowance cannot be paid based on the targets relating to all products of the Company. An internal system of control has been prepared and payments are made based thereon by obtaining approval of the Company Board of Directors.

- (c) The orders relevant to purchase of raw materials had been made from time to time due to the inadequacy of the Silo Facilities of the Thriposha Company and the lack of financial position of the company to buy a huge stock at once. They had to buy them in different price ranges due to this reason.
- Even if the necessary Silo Facilities are expanded and the company's financial position is strengthened, it will not be possible to purchase the necessary stocks at once if there is a shortage of raw materials in the market or if the exchange rates are not stable. In such case, it will happen to purchase intermittently at different price ranges.
- Measures should be taken to procure raw materials in such a way as to obtain maximum economic benefits based on production targets.
- (d) The company stores the imported maize in the warehouses located in the company premises until the quality certificates are received and when the stock is unfit for use according to the quality certificates, the importer removes them. Even though these stocks should be retained in the importer's warehouses and only the stocks certified as per the laboratory test reports should be brought into the company's warehouses, it was observed that the warehouses cannot be used optimally for the company's activities by allocating the company's warehouses for the importer as per the existing procedures, wages, overtime and other allowances have to be paid for employees to get this stock to the warehouse, and the company bears a cost of overhead for holding these stocks. Further, even though the consignments should be rerouted promptly if they are found to be of poor quality
- The company carries out quality control activities on maize stocks after receiving the related stocks at the institution premises. The consignments conforming to the relevant specifications are accepted and non-conforming consignments are returned. The process cannot be carried out at the supplier's warehouses and that carrying it out at the supplier's warehouses would not serve the necessary purposes. The necessary personnel will be employed by the supplier for loading, unloading and cleaning the relevant consignments. The institution bears only the
- Since it is a supplier's responsibility to supply the stock in required standard, the total cost incurred by the company for the substandard stock should be recovered from the supplier.

after quality inspection, a delay in carried stock in unusable condition from the warehouse by the supplier was also observed. Similarly, no measures had been taken to recover the cost incurred by the company for use of the company's warehouse by supplier and unloading and maintenance of quality failed stock until the receipt of quality inspection reports from the supplier.

maintenance and overhead costs that should normally be incurred. Due to these facts, maize stocks will have to be held in the company for some period of time.

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| (e) | A sum of Rs.192, 091,525 had been given at several occasions in the year 2021 by the World Food Program (WFP) for the construction of the proposed silo system and the related work had not been completed in the year 2022. The money received under the programme was used for the company's daily operations for almost a year and a fixed deposit of Rs. 145,425,220 held by the company had been cashed before maturity and Rs. 192,091,525 along with that amount had been deposited in a fixed deposit account on 01 July 2022. | The relevant funds had been provided by the World Food Organization as a grant for the purchase of maize. Even though the relevant permissions had been obtained to utilize the grant for raising funds to set up the required silo system as per the request of the company, the task has not yet been accomplished since the total estimate related to the silo system is about Rs. 500 million. | Should be taken an action for achieve the objectives. |
| (f) | The estimated loss of Rs. 792,500 for the copper strips installed for the company's lightning conductors on 5 May 2022 had not been recovered until March 2023. Similarly, even though an insurance worth of Rs. 2 million should have been provided to the company according to clause 25(a) of the agreement with the security service provider to recover if the company incurs any loss or damage, Measures had not been taken accordingly. | An preliminary investigation had been carried out by the Ministry of Health in relation to the incident of taking away the copper straps installed for the lightning conductors by thieves. It has been recommended to recover the loss from the security company as per the said investigation. Approval had been given to deduct the amount of Rs.589,485 for the re-establishment of this lightning conductor system from the amount due to the company for the two months of June and July 2022. | The entire assessed loss should be recovered along with departmental charges and confirmed to the audit. |

3.4 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
(a) Even though the company had made a loss of Rs. 48,310,073 in the year under review according to the financial statements of the company submitted to the audit, according to the financial statements prepared separately for the two main products of the company, Thriposha and Suposha, a net loss of Rs.117,125,355 was shown in relation to production of Thriposha and a profit of Rs.68,815,282 in relation to production of Suposha. It was observed that a profit had been earned in relation to Suposha production due to the preparation of financial statements without separating the total expenses incurred and the income earned between the two main products of the company and not collecting money for Triphosha and issued to the Ministry following an acceptable cost calculation method to calculate the production cost of Thriposha. Expenditures and income specifically identifiable with the production of Thriposha and Suposha should be identified separately in relation to the production of Thriposha and Suposha and it was observed in the audit that all the expenses and incomes that cannot be precisely identified should be distributed based on the percentage of Thriposha and Suposha production.	Production of Thriposha had been stopped in the first half of the year due to the temporary suspension of the distribution of manufactured Triphosa with the press statement made by public health officials that there is Aflatoxin in Triphosha resulted in losses from Thriposha production. Even though the prices of goods and services changed in short term due to the severe economic crisis and political instability in the year 2022, it is not possible to revise the selling prices of the company's products from time to time.	Expenditures and revenues specifically identifiable with the production of Triphosa and Suposha should be identified separately in relation to the production of Triphosha and Suposha and all such expenses and incomes that cannot be precisely identified should be distributed based on the percentage of Thriposha and Suposha products and profit and loss related to Triposh and Suposha production should be determined.
(b) According to Section 17 (1) of the Food Act No. 26 of 1980, the Government Analyst shall be the Approved analyst for the purposes of this act when importing and distributing any food inappropriate for human consumption. It was also stated that a qualified person can be appointed in the same way according to Section 17 (2) of the Act. According to the information submitted to the audit, the company had obtained test reports	These two institutions are currently recognized as qualified institutions for testing grains and grain-related products in Sri Lanka. These two institutions are internationally recognized institutions for issuing laboratory reports. Since the company has a very limited storage space, the relevant inspection reports	Measures should be taken in terms of the provisions of the Food Act No. 26 of 1980.

from private laboratories not specified under the Food Act in addition to the Government Analyst.

should be obtained promptly and it should be decided whether or not to use the stock for production purposes.

- (c) The company had obtained the services of a civil engineer from the Ministry of Health for the consultancy work of the contract related to the extension of the Thripasha production building. Even though the consultant service fee for that should be remitted to the Ministry of Health, instead of that an amount of Rs. 424,817 had been paid directly to the concerned engineer.
- This payment had been made in accordance with the Section 2.2 of the Chapter ix of the Establishment Code.
- The relevant specific section of the Establishment Code and relevant approvals should be submitted for audit.
- (d) An investigation officer of the Ministry had been appointed to conduct preliminary investigations at two occasions, and a payment of Rs.55,000 had been made directly to the concerned investigation officer for the same purpose by the company.
- An amount less than the amount due as per Public Administration Circular No. 18/2018 had been paid to the investigation officer.
- The authority concerned should be submitted to the audit.
- (e) Even though the officers to whom official vehicles are allotted by the Government should not be paid with transport allowance for attending Company Board meetings, two such officers had been paid with Rs.72,000 as transport allowance in the year under review.
- A transportation allowance of Rs.3,000 is paid per member in terms of the PED Circular No. 58 taking into consideration the distance they travel since the company is located in the Ja-Ela area and as they attend Company Board meetings as an off-duty function. Most of the members appointed to the Company of directors of the company are ex-officio.
- Transport allowances shall not be paid for officers to whom official vehicles are allotted for attending Company Board meetings.

- (f) Under the Thriposha programme implemented under the Head 111-02-16-1501 of the Ministry of Health, Thriposha is manufactured for pregnant mothers and children. While making a request to resume the payment of the allowance, which was paid to the officers of the Ministry before 2021 for the activities done by the Ministry for that purpose, the Accountant Expenditure 1 of the Ministry of Health had referred a letter to the Chairman of the Thriposha Limited. Although the request should have been made by the Secretary to the Ministry, the approval of the Company of Directors had been granted to the request made by another officer. Accordingly, the company had to incur an additional expenditure of Rs. 324,000 annually to pay a separate allowance to the officers of the Ministry of Health for the normal duties falling under the scope of the officers of the Ministry.
- That the officers of the Expenditure ii Branch of the Ministry of Health make prime contribution to the Thriposha Limited to make payments relating to the Thriposha invoices and related activities. Payment of monthly allowance has been made only for a few officials for performing those duties under the approval of the Company of Directors. As pointed out by the Audit, the Accountant Expenditure 1 has been informed in writing to obtain the approval of the Secretary of Ministry of Health to grant this monthly allowance and submit that approval to the Thriposha Limited.
- Approval of the Secretary to the Ministry and the Treasury should be obtained to grant allowances for making payments under an Object for which the responsibility is assigned.
- (g) Due to the dearth of local maize for Thriposha production, the order had been placed on 07 June 2021 to order 2500 metric tons of imported maize. According to the aforesaid order, the imported maize should not be accepted by the warehouses of the company until they are confirmed suitable for the productions by the laboratory test reports. However, 850 metric tons of maize had been accepted and stored by the company by 04 November 2021. Before the receipt of laboratory test report confirming the suitability for such maize for production activities, Thriposha and Suposha had been manufactured and distributed using 700 metric tons of the above stock. Nevertheless, the subsequent laboratory reports had confirmed that the relevant stock of maize was not suitable for productions. The quantity of Thriposha manufactured using the remaining 150 metric tons of maize remained
- The warehouse accepted the relevant stock according to the quality control system and the tests maintained by the company until November 2021 and in the production, that stock has been used subject to the accepted testing criteria and specifications. No information was made until completion of the production that the imported stocks of maize were not suitable for the production and subsequently, with information provided that it contained Aflatoxin, issuance of Finished goods and work in progress was temporarily suspended. After the above incident, the Aflatoxin test, which was performed randomly until then, is done for each stock
- An extensive investigation should be conducted in this regard and action should be taken against the responsible parties.

as at 31 December 2021 as the production was unable to distribute. According to the decision of the Board Paper dated 20 January 2022, action had been taken to repack 114,030 kilograms of the above production under the name of Suposha and issue to the market and to pack 85,162.5 kilograms for mothers and distribute to 07 office of the provincial director of health Service in January and February 2022. Out of the total quantity of Thriposha manufactured and distributed for the mothers, 8,903.25 kilograms issued to the Ratnapura district had been returned to the company and this stock had been stored in the warehouse as the wastage by May 2023.

- (h) According to the articles of association of the company, it has been stated that products must be done using local soya beans and maize as the main two raw materials required for the Thriposha production for strengthening the local farmers whereas according to a decision reached at the Cabinet meeting held on 31 December 2004, it was possible take steps to import them only if a shortage occurred in the local production. However, test reports of the imported maize purchased from a local supplier in 2022 confirmed that it contained high level of Aflatoxin and consequently, 20,011 bags that is 1,000,550 kilograms of maize purchased from three suppliers in the year 2022 had been returned.
- For the purchase of local productions, maize samples were tested through the field visits on several occasions. Due to the excessive quantity of Aflatoxin found in those maize samples, it was not possible to purchase maize from the local farmers. With the imposition of ban on the import maize for animal foods by the Government, locally produced maize could not be purchased for the Thriposha manufacturing since the farmers were interested in selling them for animal food production.
- An arrangement should be made to obtain standard maize in collaboration with the Ministry of Agriculture and the Ministry of Health.

3.5 Idle or Under Utilized Property, Plant and Equipment

Audit Observation	Comment of the Management	Recommendation
(a) The company had purchased a machine costing Rs. 209,274,588 for the production of a specific kind of nutrient biscuit, and Rs. 18,979,438 and Rs. 5,348,946 had been spent for the installation of the machine and for officers' training, respectively. Biscuits had not been manufactured during the year under review and Rs. 523,027 had been spent for testing on 11 occasions. Accordingly, the total amount of Rs. 234,125,999 spent for this purpose had turned out to be a fruitless expenditure.	Due to the prevailing Corona pandemic in the year 2021 and 2022, political instability, severe economic and financial crisis, and inability to supply standard maize with low levels of Aflatoxin in both the local and foreign markets, productions could not be continued, and as a result, biscuit production could not be carried out as planned.	An extensive investigation should be conducted in this regard and action should be taken against the responsible parties.
(b) The Divisional Secretary of Mahavillachchiya had provided the company with a land area of 10 acres in Anuradhapura, Oyamaduwa as well as No.02 warehouse containing 40,000 square feet on long-term lease basis. By the letter dated 06 July 2022, the company had been instructed to conduct a proper survey and take over the relevant. However, necessary action for that purpose had not been taken even by 17 March 2023. The main purpose for providing this land and the warehouse was to purchase maize and soya beans at a low price from the local farmers when they are abundant and store them in the warehouse. Nevertheless, the management including the Company of Directors had not taken necessary measures in that connection and as such, that land and the warehouse remained idle. Similarly, it was observed that the lease rent would have to be paid although this land and the warehouse remain so idle.	Although it was informed that provision of Rs. 1,500 million was allocated to purchase raw materials from the farmers and store them for the increase in the Thripasha production as per the 2021 budget proposal, the company did not actually receive such provision from the National Budget Department. Consequently, there were no funds available to procure the dryers and cleaning machines necessary to be installed in the relevant warehouse, and maize and soya beans cultivated in Sri Lanka were not available in sufficient quantities and quality due to the fertilizer crisis in the country.	A comprehensive feasibility study should be conducted regarding this project and further action should be taken accordingly.

3.6 Vehicle Fleet Management

Audit Observation	Comment of the Management	Recommendation
<p>Out of 04 vehicles provided by the Ministry of Health to the Thriposha Limited, 02 vehicles had been referred for repairs and one vehicle remained beyond repairs and idle from June 2018. The United Nations Food Programme had provided the other vehicle to the Ministry of Health in July 2011 and the Secretary to the Ministry of Health had provided the vehicle to the Thriposha Limited. It was observed that the said vehicle was not registered in this country and therefore, it was unable to be used. That vehicle was in the company for about 10 years and only a distance of 57,649 kilometres had been covered. Accordingly, this vehicle, which was in running condition, remained in the company as an idle asset.</p>	<p>The Traffic Division of the Sri Lanka Police informed that the said cab could not be used as it was not registered in this country. Subsequently, despite the necessary measures taken on number of occasions to register the vehicle in this country, registration could not be done. Since this unusable vehicle was owned by the Ministry of Health, the company was unable to dispose it as a vehicle or as scraps. Although the Director (Transport) of the Ministry of Health was informed on several occasions, no steps have so far been taken to take over the relevant vehicle to the Ministry of Health.</p>	<p>Arrangements should be made to repair the usable vehicles and take suitable action for the other vehicles.</p>

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comment of the Management	Recommendation
<p>A one officer alone had been appointed to the Internal Audit Division of the company and an adequate internal audit had not been carried out during the year under review. Similarly, no internal audit query had been issued during the year under review.</p>	<p>Only one post of Internal Auditor had been approved at the time of taking over of the company by the Government. It is inadequate at present and the company should have at least one post of Internal Auditor and other 02 posts to assist that post.</p>	<p>Annual Internal Audit Plans should be implemented and copies of the internal audit queries or the reports issued should be presented to the Auditor General.</p>