Sri Lanka Thriposha Limited - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Thriposha Limited for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 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 2019, 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 Auditor's Responsibilities for 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 scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

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

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

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

1.5 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

	Non Compliance with the reference to particular Standard	Comment of the Management	Recommendation
(a)	As per Paragraph 50 (a) of Sri Lanka Accounting Standards 7,	Necessary disclosures should be made in this regard in the	Action should be taken in accordance with the

	opening of a letter of credit by keeping a fixed deposit amounting to Rs.125 million as a security to import a machine for manufacturing biscuits by the Company had not been disclosed in the financial statements.	preparation of financial statements for the ensuing years.	Sri Lanka Accounting Standard.
(b)	As per Paragraph 88 of Sri Lanka Accounting Standards 12, income taxes of Rs.12.35 that had been computed as the amount to be paid by the Company had not been disclosed in the financial statements.	Action was not taken to disclose this in the financial statements since the Tax Authority had not informed that there was such a contingent tax liability and the Company had not reached an agreement in this regard and it is scheduled to take necessary future action in this regard after conducting further discussions at the Audit and Management Committee meeting.	Action should be taken in accordance with the Sri Lanka Accounting Standard.
(c)	As per Paragraph 51 of Sri Lanka Accounting Standards 16, the useful life of the assets of the Company had not been reviewed.	Action would be taken in the future to review the useful life of the assets.	-Do-
(d)	As per Paragraph 86 of Sri Lanka Accounting Standards 37, an amount of Rs.2.36 million computed as the sum payable to the Department of Valuation for the valuation of non- current assets of the Company had not been disclosed in the financial statements.	It has been informed by the Department of Valuation that a fee of Rs.2.36 would be charged for valuation of non-current assets and future action would be taken in this regard subsequent to discussing the matter at the Audit and Management Committee meeting.	-Do-

1.5.3 Receivables

Audit Observation	Comment of the Management	Recommendation
Even though it had been stated in the Financial Statements that the amount receivable from the Ministry of Health and Indigenous Medical servicers as at 31 December 2019 was	It has not been confirmed that the amount receivable from the Ministry is Rs.18.33 million and a sum of Rs.27.62, the value identified by us has been stated in	Action should be taken to substantiate the total amount receivable from the Ministry.

Rs.27.62 million, there was a difference of Rs.9.28 million between the relevant balances as it had been confirmed that the amount payable from the Ministry to the Company was Rs.18.33 million only.	the financial statements and sending vouchers, that should have been reimbursed in the year 2019, to the Ministry in the year 2020 for the reimbursement was the reason for the difference.	

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Paragraph 3 (a) of the Inland Revenue Act No. 10 of 2006	Action had not been taken to compute and to pay the income tax liability on the taxable income earned by the Company.	The assistance of a Tax Consultant was obtained in this regard and future action would be taken after discussing the matter at the Audit and Management Committee meeting.	Action should be taken in terms of provisions of the Inland Revenue Act.
(b) Public Enterprises Circular No. PED/12 of 02 June 2003.			
(i) Paragraph 7.2	An operational manual had not been prepared by covering the major aspects of the Administrative setting of the Company.	The Company has an operational manual and action would be taken to update and submit it to the audit.	Action should be taken in terms of the provisions of the Circular.
(ii) Paragraph 8.2.2	Even though the consent of the Minister of Finance and Mass media had to be obtained for investing additional funds, the Company had invested a sum of Rs.192.30 million in a state bank without getting the consent.	Even though a sum of Rs.192.3 million had been invested in a state bank, a sum of Rs.67.3 million out of that amount had been the amount obtained from Suposha Sales Agents and the balance was an investment made as per the decision taken by the Cabinet of Ministers and on the approval of the Board of Directors.	-Do-

	(iii) Paragraph 9.12	A Medical Fund had been established and operated without the approval of the Department of Public Enterprises and the balance of the Fund as at 31 December 2019 was Rs.246,837.	This Medical Fund has been in existence even at the time of vesting the Thriposha Limited to the Government and it has been stipulated in the Agreement of the Labour Commissioner that those privileges should be provided. However, the approval has been sought from the Department of Public Enterprises by the letter of 13.11.2019 as per the instructions granted by the Audit.	Action should be taken in terms of the provisions of the Circular.
(c)	Guideline 4.2.1 of the Government Procurement Guidelines, and Section 4.2.1 of the Procurement Manual.	The Procurement Plan and Procurement Time Schedule had not been prepared properly for the year under review.	A Procurement Plan had been prepared and copy thereof had been presented to the Audit. Matters stated in Guideline 4.2.1 of the Procurement Guidelines will be taken in to consideration in due course.	A Procurement Plan should be prepared in terms of Guideline 4.2.1 of the Procurement Guidelines.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a surplus of Rs.178.13 million as compared with the corresponding surplus of Rs.78.64 million for the preceding year, thus observing an improvement of Rs. 99.49 million in the financial result. The increase in the sale of "Suposha" and the increase in other income had mainly attributed to the said improvement.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) With the objective of distributing freely among the pregnant or	It is the key objective of the Company to provide	Action should be taken to fulfil

	breast feeding mothers and infants, 12,239 metric tons, 11,913 metric tons and 11,712 metric tons of Thriposha had been manufactured in the years 2017, 2018 and 2019 respectively. Accordingly, as compared with the preceding year, the production of Thriposha had declined by 2.66 per cent and 1.68 per cent in the years 2018 and 2019 respectively. However, as for the said three years, 1,230 metric tons, 2,610 metric tons and 3,717 metric tons of "Suposha" introduced to the market on commercial basis, had been manufactured respectively. As such, the production of "Suposha" had increased by 112.19 per cent and 42.41 per cent in the years 2018 and 2019 respectively as compared with the preceding year, thus observing that the objective of social welfare had been overshadowed by the commercial objective.	"Thriposha" free of charge for all the pregnant mothers, breast feeding mothers and underweight children under the age of 05 years in Sri Lanka. Of the total production for the year 2018, 82 per cent represented "Thriposha" whilst 18 per cent had been for "Suposha". Accordingly, the Company had not deviated from its key objective.	commercial objectives only after achieving the main objective.
(b)	Due to failure in estimating the minimum, maximum, and reorder stocks relating to the management of row material stocks, it was observed that purchase, storage, and issue of row materials had not been done properly.	Action will be taken in due course on the criterion relating to the management of minimum, maximum, and reorder stocks of row materials.	Action should be taken to estimate the minimum, maximum, and reorder stocks of row materials with respect to the management thereof, and properly purchase, store and issue of stokes of row materials.
(c)	As the Ministry of Health & Indigenous Medical Services incurs all the expenses on the row materials used in the production, the sales income from the waste of the production process should be	There are 216 employs in the Company at present, and no amount whatsoever is obtained from the Treasury for their welfare. The funds required for welfare	Action should be taken to credit the income earned through the sale of waste produced in the production process,

credited to the Consolidated Fund of the Government. However, the sum of 23.84 million being the income from the sale of waste in the year under review had not been credited to the Consolidated Fund of the Government. The sum that the Government had been deprived of in that manner during the period of 09 years from 2011 up to the year under review, totaled Rs. 139.91 million.	activities of the employees including loans, are earned through the sale of waste. The funds earned through the sale of waste is considered an income of the Company and, with the approval of the Board of Directors, credited to the account of the Company without being credited under the name of the Director General of Health Services.	to the Consolidated Fund of the Government.

3.2 Underutilized Equipment

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

3.3 Procurement Management

Audit Observation	Comment of the Management	Recommendation
(a) Following a Cabinet decision, the milk powder used in the production of “Thriposha” had been purchased only from the Milco Private Limited. In the years 2017, 2018, and 2019, sums of Rs. 810, Rs.798, and Rs.800 had been paid respectively per kilogram of milk power to the said Company. Nevertheless, the Milco Private Limited had supplied milk powder at Rs.690 per kilogram to the sales outlet of the “Thriposha”	Milk powder used in the production process of “Thriposha" is purchased in each year by following the Cabinet decision. Nevertheless, the Milco Private Limited was queried as to the differences in the prices. The financial assistance granted by the Government to minimize the loss incurred from the milk powder sold at the average market, is not given for the milk powder supplied to the “Thriposha" Company, and as such	An agreement should be entered into with the Milco Private Limited to obtain milk powder for manufacturing “Thriposha” at the prices at which milk powder is supplied by Milco to the sales outlet of the “Thriposha" Company.

	Company through an agent during all the said 03 years. As such, despite the possibility of obtaining milk powder at Rs.690 per kilogram from the Milco Private Limited, overpayments of Rs.120, Rs.108, and Rs.110 had been made respectively per kilogram of milk powder during those 03 years. Hence, overpayments totalling Rs.77.76 million, Rs.64.8 million and Rs.66 million had respectively been made during the relevant years.	the Milco Private Limited has informed that the prices would be different.	
(b)	The procurement for the supply of 12,000 metric tons of maize for the period 2018/2019 had been commenced on 23 May 2018. After a period of 08 months, the procurement had been awarded to supply one kilogram of maize at Rs.55.90 in accordance with the Cabinet Decision dated 22 January 2019. In order to fulfil the maize requirement of 12,000 metric tons for the period of 08 months from 23 May 2018 to 22 January 2019, a quantity of 9,000 metric tons of maize had been purchased under competitive bidding in 04 instances in the manner of 3,100 metric tons at Rs.59.50 per kilogram, 2,775 metric tons at Rs.59 per kilogram, 1,250 metric tons at Rs.58.50 per kilogram, and 1,875 metric tons at Rs. 66 per kilogram. As such, due to failure in making the procurement under a proper plan, a sum of Rs. 41.95 million had been overpaid to purchase maize.	All the procurement activities of the Sri Lanka “Thriposha” Limited in regard to the Cabinet are done by the Procurement Division of the Ministry of Health. However, in order to continue the manufacture of “Thriposha" until those decisions are taken, purchases are made under the national competitive bidding within the limits of the Department.	The procurement process should be commenced without delays and completed under a proper plan thus taking action to minimize risks likely to occur due to delays.