

Sri Lanka Ayurvedic Drugs Corporation - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Ayurvedic Drugs Corporation for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, 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 and the Finance Act, No. 38 of 1971. 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 financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 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 determines 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Corporation 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 Corporation.

1.4 Auditor's Responsibility for the Audit of 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 Corporation'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 Corporation 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 Corporation and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;

- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation 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 Non-compliance with Sri Lanka Accounting Standards

The following observations are made.

Non-compliance with Reference to relevant Standard	Comments of the Management	Recommendation
(a) Sri Lanka Accounting Standard 1		
(i) In terms of paragraphs 27 and 28 of the Standard, interest income relating to 05 fixed deposits had not been brought to account on accrual basis. As such, the interest income for the year under review had been overstated by Rs.1,459,334 and accrued interest income as at 31 December 2020 had been understated by Rs.4,171,080 in the financial statements.	Observation is correct and interest income will be brought to account in terms of Sri Lanka Accounting Standard in the ensuing year.	Action should be taken in terms of Sri Lanka Accounting Standard.
(ii) In terms of paragraph 32 of the Standard, assets and liabilities and income and expenses should not be offset unless required or permitted by a Sri Lanka Accounting Standard. However, credit balances amounting to Rs.29,720, remained in 02 Ad-hoc Sub-Imprests Accounts as at 31 December 2020 had been offset against debit balances amounting to Rs.610,044 remained in the said 33 accounts as at that date and the income of Rs.2,540,257 received from two herbal gardens and other income of Rs.6,148,865 during the year under review had been offset against the expenditure amounting to Rs.9,793,701 incurred for three	This error will be rectified in the ensuing year.	-do-

herbal gardens and indicated them in the financial statements.

- (iii) In terms of paragraph 51 of the Standard, values indicated in the financial statements presented for the year under review had not been furnished by rounding up to the nearest rupee. That the values cannot be rounded up to the nearest rupee through the current computer system and a computer package will be prepared therefor accordingly. -do-

(b) **Sri Lanka Accounting Standard 2**

It was observed that the cost of remaining stocks indicated in the financial statements as Rs.192,451,043 as at 31 December 2020 had not been recognized in accordance with provisions mentioned in the Standard.

- (i) In terms of paragraph 25 of the Standard, the cost of remaining stocks should be computed and brought to account by using the first-in, first-out (FIFO) or weighted average cost formula. It had been disclosed in the financial statements that the cost of remaining stocks had been computed and brought to account by using weighted average cost formula. However, in terms of paragraph 27 of the Standard, stock ledgers had not been maintained for the calculation of the weighted average on a periodic basis or as each additional shipment is received and instead of that, the stock ledger had been computerized and maintained for calculating the cost of stocks based on FIFO. That the observation is correct and the stock of finished goods owned by the Corporation is not maintained on the FIFO basis and sales centres are not equipped with adequate computer facilities for recording stocks, only stocks of raw materials are maintained on FIFO basis, action will be taken to calculate stocks on the FIFO basis and further action will be taken to install a computer system relating to the maintenance of finished goods and raw materials. In terms of the Standard, stocks issued continuously by adopting the method of FIFO or under the weighted average cost formula, should be valued and the balance of the stock ledger at the end of the year should be brought to account as the remaining stock. Stock ledgers should be maintained manually in divisions which are not equipped with computer facilities.

- (ii) The cost of herbal raw materials, finished drugs and packing materials remained as at 31 December 2020 had been calculated as Rs.70,360,760, Rs.96,833,832 and Rs.21,824,951 -do- -do-

respectively based on the average of cost in the months of January and December 2020, and the cost of stationery remained as at 31 December 2020 had been calculated as Rs.3,431,500 based on the final purchased price of the year and brought to account instead of the weighted average cost formula.

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| <p>(iii) The cost of remaining 25 items of stationery amounting to Rs.456,700 of which the physical balance was confirmed at the Annual Board of Survey conducted as at 31 December 2020, had not been brought to account and the cost of remaining stock of computer accessories amounting to Rs.1,947,949 had been written off against the profit as at that date instead of accounting as an asset.</p> | <p>As the said stock of stationery had been purchased before several years, and it is due to be entered into the computer system after calculating the relevant cost and rectifications on computer accessories will be made.</p> | <p>These errors should be rectified.</p> |
| <p>(iv) Stock shortages in 20 herbal raw materials costing Rs.842,292 and 12 finished drugs costing Rs.387,590 and stock surpluses in 20 herbal raw materials costing Rs.11,734,245 and 31 finished drugs costing Rs.290,222 were revealed at the audit test checks carried out only relating to 03 stores out of 08 stores maintained. However, the said stock shortages and surpluses had not been brought to account and steps as well had not been taken thereon in terms of Financial Regulations 103,104 and 105.</p> | <p>That action in terms of Financial Regulations has been taken in respect of stock shortages and surpluses in the year 2019 and taking action in terms of Financial Regulations in respect of stock shortages and surpluses in the year 2020 was delayed due to Corona pandemic and further action will be taken thereon.</p> | <p>Stock shortages and surpluses revealed at the physical verification should be brought to account and further action should be taken in terms of Financial Regulations.</p> |
| <p>(v) Steps had not been taken to write off the cost of damaged and expired stocks contained in the remaining finished stocks of drugs costing Rs.7,301,072 as at 31 December</p> | <p>That unusable and expired stocks are contained in remaining stocks of finished drugs in No. 07 and 08</p> | <p>Steps should be taken to calculate the cost of damaged and expired stocks</p> |

2020 against the profit and to take action in terms of Financial Regulations 103, 104 and 105 thereon. Further, the cost of damaged and expired 19,516 units of finished drugs, 671 units of stationery and 177 kg of herbal raw materials which were revealed at the Annual Boards of Survey as at 31 December 2020, had not been calculated and brought to account and the damaged and expired stock contained in stocks of packing materials had not been even calculated.

stores of sales centres accurately and to account them, to dispose of them properly, to write off the said stocks and to take action in terms of Financial Regulations in respect of relevant damages and losses.

and the Corporation, unusable and expired stocks in No.07 and 08 stores had been destroyed during the year 2021, and adjustments are made in financial statements prepared for the year 2021 and as prices for old raw materials, packing materials (Labels), and stationery that remained in stores for many years, are not mentioned in the computer system, rectifications will be made after recognizing the cost thereof.

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| (c) Contrary to conditions cited in Sections (a) and (b) of paragraph 14 of Sri Lanka Accounting Standard 8, the stock valuation policy followed up to the preceding year had been changed in the year under review and in terms of paragraph 29 of the Standard, the said change in the policy had not been disclosed. | It is agreed with the observation. | Action should be taken in terms of Sri Lanka Accounting Standards. |
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1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Credit sales of Rs.7,763,620 relating to 22 sales centres had not been brought to account during the year under review.	It is agreed with the observation.	This error should be rectified.
(b) Even though a sum of Rs.1,808,795 spent for the development of the herbal garden and erection of its boundary fence, located in Medawachchiya, Anuradhapura, should be capitalized,	The expenditure incurred therefor will be amortized during the ensuing period of accounts.	This error should be rectified.

instead of that, it had been indicated in the financial statements under work-in-progress.

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| (c) | The total cost of an automatic disintegrator machine amounting to Rs.5,376,250 had been paid as an advance in the preceding year for the purchase of the said machine. Even though the said machine had been supplied and installed during the year under review, the cost thereof had not been capitalized. | That it will be entered in books of accounts in the year 2021. | -do- |
| (d) | The error of computing and accounting the expenditure on income tax of the preceding year, understating by Rs.820,104, had not been rectified. | It is agreed with the observation and the said error will be rectified in the year 2021. | -do- |
| (e) | Even though the provision for stock damage as at 31 December 2020, should be Rs.8,373,176, according to the statement of financial position, the said provision had been Rs.11,179,466, thus observing a difference of Rs.2,806,290. Moreover, according to letters of confirmation of balances of the People's Bank, the balance in two savings accounts as at 31 December 2020, had been Rs.5,574,664. However, according to the statement of financial position, it had been Rs.4,210,243, thus observing a difference of Rs.1,364,421. Further, according to the financial statements of the preceding year, a difference of Rs.5,458,141 was observed between the balance of General Expenditure Advance Account as at 31 December 2019 and the balance of the Ledger Account as at 01 January 2020 and adequate schedules had not been prepared for the confirmation of the balance amounting to Rs.9,927,344 indicated in the financial statements as at 31 December 2020. Moreover, a sum of Rs.6,047,654 out of Rs.8,906,193 indicated as prior year | It is agreed with the observation. Moreover, as the difference of Rs. 2,806,290 should be adjusted to the accumulated profit of the statement of changes in equity, it will be rectified and the difference of Rs.1,364,421 resulted due to unidentified deposits will be rectified after identification, and schedules relating to the balance of Rs.9,927,344 in the General Expenditure Advance Account as at 31 December 2020 and information relating to adjustments of the preceding year amounting to Rs.6,047,654 indicated in the statement of changes in equity are being prepared by now and action will be taken to provide that information. | Error should be rectified and relevant information and journal entries should be made available to Audit. |

adjustments in the statement of changes in equity, had not been confirmed through journal entries.

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| (f) | Adequate evidence for the confirmation of the accuracy of unsettled credit balances amounting to Rs.14,162,022 brought forward from preceding years, included in accrued expenditure of Rs.23,819,450 as at 31 December 2020 and the accuracy of unpaid stamp duty of Rs.260,839, had not been made available. | It is agreed with the observation and information relating to credit balances of Rs.14,162,022 as at 31 December 2020 and stamp duty of Rs.260,839, will be made available. | Unsettled balances should be identified and necessary adjustments therefor should be made. Moreover, journal entries relating to said rectifications should be made available to Audit. |
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1.5.3 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Instances of non-compliance with Laws, Rules, Regulations, Management Decisions etc. are given below.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 166	Action had not been taken to identify and settle the receipt of Rs.268,135 older than one year due to non-maintenance of relevant documents received with money in an updated manner and failure to keep proper records thereon.	It is agreed with the observation and action will be taken to identify and settle these old receipts.	Action should be taken in terms of Financial Regulations.
(ii) Financial Regulation 382	Instead of examining and taking relevant action in respect of 06 cheques older than even one year, valued at Rs.351,871 sent for depositing in 02 bank accounts but not credited to the account, those had been indicated in the bank reconciliation statement even up to 31 December 2020.	That it is an unsettled balance brought forward from preceding years and as a lawsuit is on trial, the said balance has been indicated in the bank reconciliation statement and steps will be taken by carrying out further identifications thereon.	A formal inquiry should be held in this connection.

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| (iii) | Financial Regulation 383 | A sum of Rs.683,636 received directly to the account which could not be identified for over a period of one year due to failure in taking action in terms of Financial Regulations, had been indicated in the Bank Reconciliation statement even up to 31 December 2020 instead of taking action to identify and enter in books. | That it is an aggregate of several cash deposits directly made to bank accounts of the Corporation and action in terms of Financial Regulation 383 could not be taken due to failure in ascertaining the identity of the depositor due to inadequate information made available. | In case of failure to identify the depositor, that amount should be credited to the Government revenue. |
| (iv) | Financial Regulation 396 | Thirteen cheques valued at Rs.15,236 older than one year, issued but not submitted for payments, had been indicated in bank reconciliation statement even up to 31 December 2020 without taking action in terms of Financial Regulation regarding those cheques. | That it is an unidentified balance brought forward for over a period of 10 years and as a lawsuit is on trial therefor, it had been indicated in the bank reconciliation statement. | Action should be taken in terms of Financial Regulations. |
| (b) | Schedule 5 of the Gazette Extraordinary No. 1702/5 of 20 April 2011 of the Democratic Socialist Republic of Sri Lanka | According to stock records, 9,019 kg of Thala Thel (Gingelly Oil) was available as at 27 July 2020. However, it was confirmed at the physical verification carried out on the same day that only 8,922 kg of Thal Thel (Gingelly Oil) was available in stores, thus observing a stock shortage of 97 kg of Thala Thel (Gingelly Oil) costing Rs.53,253. However, action in terms of Financial Regulations 103, 104 and 105 had not been taken in this connection. | That the approval of the Board of Directors has been sought with recommendations of relevant committees for taking action in terms of Financial Regulations 103, 104 and 105 in respect of the stock shortage of 97 kg of Thala Thel (Gingelly Oil). | Action should be taken in terms of Financial Regulations obtaining the approval of the Board of Directors expeditiously. |
| (c) | Public Finance Circular No.01/2014 of 17 February 2014. | Information such as updated organizational structure, approved cadre, actual cadre for the year, Activity Plan prepared according to the priorities based on the annual budget, Activity Time Line and anticipated outcome etc. had not been included in the Action Plan prepared for the year under review in terms of the circular. | It is agreed with the observation and the Action Plan for the year 2021 has been prepared in terms of circular provisions by identifying shortcomings thereof. | The Action Plan for the year 2021 should be prepared within the Activity Time Line in a proper manner in terms of circular provisions and progress reports as well should be prepared accordingly. |

- (d) Paragraph 3.5 of Public Enterprises Circular No.02/2013 of 11 September 2013. An amount equivalent to the gratuity fund computed annually had not been invested to make relevant payments promptly to an employee when he becomes eligible. It is agreed with the observation and action will be taken to make a proper investment. Action should be taken to invest an amount equivalent to the gratuity fund.
- (e) Circular No. 95 of 14 June 1994 of the Department of Public Enterprises. Contrary to provisions of the Circular, the incentive paid in the year under review and 06 preceding years without approval of the General Treasury totalled Rs.474,979,883. That it is agreed with the observation and incentive had been paid with the approval of the Board of Directors and a new incentive scheme has already been prepared and forwarded for the approval of the Treasury with the approval of the Board of Directors and the recommendation of the State Ministry of Indigenous Medicine Promotion, Rural and Ayurveda Hospital Development and Community Health. Incentive should be paid only on formal approved incentive scheme.
- (f) Guideline 8.9.1 of Government Procurement Guidelines. Formal agreements had not been entered into with suppliers in purchase of herbal raw materials including Thala Thel (Gingelly Oil) by spending Rs.37,277,148 during the year under review and attention had not been paid to send formal letters of acceptance. That special attention has been drawn to avoid weaknesses such as failure in entering into formal agreements with suppliers in several purchases and taking action to send letters of acceptance and procurements should be carried out under procurement approvals in a proper and maximum manner as per circulars issued from time to time under the Covid 19 pandemic. Action should be taken in terms of Guidelines of the Government Procurement Guidelines.

2. Financial Review

2.1 Financial Results

The operations for the year under review resulted in a surplus of Rs.6.10 million as compared with the corresponding surplus of Rs.0.65 million of the preceding year, thus observing an improvement of Rs.5.45 million in the financial result. The sales income of the year under review had decreased by Rs.29.32 million as compared with the preceding year. However, the increase in financial income on fixed deposits by Rs.18.7 million and the decrease in sales cost, administrative expenditure and sales and distribution expenditure by Rs.13.4 million, Rs.15.7 million and Rs.9.8 million respectively had mainly attributed to this improvement.

2.2 Trend Analysis of Major Income and Expenditure Items

The sales income, sales cost and other income of the year under review had decreased by 4.15 per cent, 2.7 per cent and 72 per cent respectively as compared with the preceding year while the financial income had increased by 18.7 per cent.

2.3 Analysis of Ratios

- (a) The gross profit ratio and the net profit ratio of the year under review had decreased by 1 per cent and 0.8 per cent respectively as compared with the preceding year.
- (b) The current asset ratio which stood at 1:6.03 in the preceding year had declined to 1:5.86 in the year under review while the quick assets ratio had declined from 1:4.36 to 1:4.09.
- (c) The stock turnover ratio had declined from 5.11 to 4.83 in the year under review as compared with the preceding year and as such, the period of retaining stocks had increased by 5 days, from 71 to 76 days.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The contract of supply and installation of 4 new machines at a total cost of Rs.45,361,388 had been awarded on 03 July 2019 with the intention of increasing production, efficiency and productivity of the Corporation. However, the automatic bottle filling machine	It is agreed with the observation and the Covid pandemic as well had attributed to the delay in supplying the 03 machines.	Action should be taken in terms of Procurement Guidelines.

costing Rs.26,544,603 of that, had not been purchased due to inability of obtaining financial provision. A period of nearly one year had elapsed after awarding the contract of supply and installation of the 3 machines namely, the automatic packeting machine, automatic tablet processing machine and automatic primary disintegrator machine. However, liquidated damages could not be charged as a proper agreement had not been entered into with the suppliers.

- (b) Stationery costing Rs.1,283,718 had been purchased during the year under review despite having a remaining stock of stationery costing Rs.2,319,609 as at 01 January 2020. Moreover, it was observed that only stationery costing Rs.171,827 had been used during the year under review due to the availability of a remaining stock of stationery costing Rs.3,431,501 as at 31 December 2020. It was further observed that there is a risk of the remaining stock of stationery being damaged or outdated due to purchase of excess stocks without properly identifying the requirement.
- It is agreed with the observation and new stocks had been purchased according to the opening stock of the year and the requirement of the current year and a stock of high quality stationery is required for maintaining the activities of the Corporation. Nevertheless, necessary measures will be taken on maintaining an excess or essential stock level after being further looked into the said matter.
- Stationery should be purchased after proper identification of the requirement.

- (c) It was observed during the physical stock verification carried out in the sales centres of Matara, Kandy, Matale and the Corporation that stocks had not been systematically kept in stores and maximum, minimum and re-order stock levels had not been maintained and that despite failure in using sales promotion techniques for identification and sale of slow moving stocks existed and that types of drugs withdrawn from sales due to reasons such as increase in price of drugs, blotches on labels and packing had been stored together with expired drugs and had been left to expire without taking necessary measures to sell those stocks by re-labeling, drugs expired and cannot be used remaining in sales centres and stores had been computed as normal stocks for a long period without eliminating from stock books and that a large space was underutilized in sales centres.
- It is agreed with the observations and that arrangements have been made to modify the shelf system so as to make optimal use of the limited space in stores of finished drugs, the said activities has been commenced in store 007, a separate part has been constructed to increase the space in store 008 as well, necessary action will be taken to make arrangements relating to maximum, minimum and re-order stock levels by discussing with relevant parties, action has been taken to carry out sales promotional activities to sell slow moving stocks even in the wake of the global pandemic of Covid 19, expired drugs have been disposed of in store 08 by proper identification on the approval of the Board of Directors and despite plans made for commencement of medical clinics in sales centres where it is underutilized, the said activity was crippled due to Covid 19 global pandemic.
- Control of stores should be regularized.
- (d) A sum of Rs.1,808,795 had been spent for development of the herbal garden located in Anuradhapura and for construction of the boundary fence thereof. However, the said land had not been properly vested in the Corporation.
- It is agreed with the observation and that even though the Divisional Secretary, Medawachchiya has informed of the decision to provide the land to the Corporation, it has not been properly vested so far and that the expenditure incurred will be amortized in the ensuing period of accounts.
- Action should be taken to vest the land properly in the Corporation.

3.2 Operating Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Performance of any activity whatsoever had failed relating to 19 capital procurements at an estimated cost of Rs.333 million out of 77 activities set out in the Action Plan prepared for the year under review. The Chairman has commented that non-receipt of provision and the Corona pandemic situation which prevailed had attributed therefor.	It is agreed with the observation and that all capital activities could not be performed due to non-receipt of adequate provision and the Corona pandemic situation which prevailed.	Action should be taken in terms of the Action Plan.
(b) Sales income for the year under review amounting to Rs.676,304,359 comprised Rs.504,447,317 received from the public sector representing 75 per cent while only Rs.171,857,042 representing 25 per cent was received from the private sector. The inclination towards spontaneous demand of the public sector, failure in properly identifying market requirements, non-use of new sales techniques and inadequate advertising had attributed to the decrease in sales income of the private sector.	It is agreed with the observation, and that the entire country was inactive for two quarters in the year 2020 due to the Covid pandemic, that the entire operating system was crippled due to reasons such as dearth in human resources and collapse of the supply process due to difficulties in obtaining raw material and closing of sales centres during this period, however sales could be improved by 25 per cent in the year 2020 as compared with the total sales income of the private sector in the year 2019, sales promotions were not carried out on publicity media during the first few months considering the sales volume of the Corporation, advertisements of the Sri Lanka Ayurvedic Drugs Corporation were published in the tabloid of the Arogya monthly magazine,	Action should be taken to improve the sales income of the private sector.

“Ginihalgeya” with the improvement that took place in sales during the last few months of the year, that a range of new products of the Sri Lanka Ayurvedic Drugs Corporation was launched with the participation of the Minister of Health for the Corona pandemic and that sales publicity could be given free of charge in a manner of covering all three media of print, audio and audio-visual.

- (c) The income deprived of to the Corporation due to inability of meeting the demand relating to 134 types of products to the public sector during the year under review amounted to Rs.79,614,405 while the income so deprived in the preceding year amounted to Rs.78,372,900. There was a risk of losing the specific market share through inability of meeting the public sector demand without sales promotion efforts.
- It is agreed with the observation and that maximum effort will be made to minimize the sales income deprived of to the public sector, preparing the Production Plan will be prepared so as to reach targets by considering the demand of previous years and the **domination** of the new market and that that the progress of the Production Plan for the year 2021 as well was specifically reviewed monthly, headed by the Chairman for minimizing the income deprived of to the public sector.
- Necessary action should be taken to meet the demand of the public sector at optimum level.
- (d) Performance indicators had not been determined and the performance of the said functions reviewed for evaluating activities of various Divisions of the Corporation which perform activities according to the Production Plan and Sales Plan prepared by the Corporation.
- It is agreed with the observation, necessary steps are being taken relating to ensuing years and action will be taken from the following year to determine performance indicators and take action relating to functions of the sales and production process by all Divisions.
- Performance indicators should be determined for evaluating the performance of processes of each Division of the Corporation and the performance thereof should be reviewed.
- (e) The Corporation had not carried out a timely market survey for **deciding** its
- It is agreed with the observation, a market survey is due soon after the Covid
- A survey should be carried out for identifying market

market share and moreover, knowledge whether there is an increase or decrease in the market share of the Corporation among competitive institutions, had been lacking.

pandemic ends, for identifying the market share of the Sri Lanka Ayurvedic Drugs Corporation and to identify necessary production concepts, while identifying market trends so as to satisfy consumer needs and basic matters such as survey sheets required therefor have been already prepared.

trends so as to satisfy new consumer needs for improving the market share of the Corporation.

(f) In terms of the notification mentioned in the Gazette Extraordinary No.14,853/3 dated 11 May 1969, out of the 07 objectives of the Corporation, action had not been taken for achievement of objectives such as maintaining dairies for obtaining pure cows' milk for producing pure ghee required for producing Ayurvedic drugs, bee keeping for producing bees honey required for producing drugs and developing bee keeping as a cottage industry.

It is agreed with the observation, programmes being unsuccessful despite fixing apiaries in herbal gardens belonging to the Corporation targeting production of bees' honey on several occasions previously, that arrangements have been made at present to implement a special project by paying special attention towards producing bees honey, that action will be taken to select 100 member Medical Practitioners in Ayurvedic Medical Preservation Councils of the Gampaha District and provide them with 100 apiaries containing colonies of bees and obtaining the produced honey to the Corporation, Medical Practitioners relevant to the project have been already identified, applying the assistance of the Department of Agriculture, experts and institutions involved in the field of producing bees' honey, it is also expected to implement this project in the herbal gardens belonging to the Corporation and that special attention will be paid on maintaining dairies relating to obtaining ghee and cows' milk.

Action should be taken to achieve the objectives of the Corporation or to revise objectives to adapt to practical situations.

3.3. Human Resource Management

 The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) The approved cadre and the actual cadre of the Corporation stood at 375 and 316 as at 31 December 2020 respectively. As such, there were vacancies in 63 posts which comprised 02 posts in the Senior Management Level, 02 posts in the Middle Management Level, 04 posts in the Junior Management Level, 05 posts in the Management Assistant Technical Level, 14 posts in the Management Assistant Level and 25 posts in the Primary Level. Action had not been taken to fill these vacancies properly as required. Moreover, appointments had been made on acting basis over many years for the posts of Chief Medical Practitioner, Foreman and Machine Operator.	It is agreed with the observation, absence of a qualified applicant despite calling for applications in 03 occasions for the post of Chief Medical Practitioner, qualifications not revised despite having made requests to the Department of Management Services for revision of qualifications, as the Medical Practitioner appointed to act in the said post, discharges the duties of that post duly, it has been submitted for the approval of the Department of Management Services for making the said post personal to holder basis after obtaining approval of the Board of Directors, external recruitments cannot be made for the post of Foreman according to the Scheme of Recruitment of the Corporation, selections should be made from among internal employees in Grade II of the Primary Service Category with 05 years' work experience, appointments on acting basis had been made to persons who had fulfilled the immediate qualifications without appointing them permanently as the applicants from whom applications were called had not completed the relevant service period as it is an essential post in the production process, it is due to take necessary action by submitting a report thereon to the Board of Directors, one employee has been appointed on acting basis at the interview held on 31 July 2019 for the post of Machine Operator and that applications have been called for the post of Machine Operator by now.	The performance should be increased by properly filling the approved cadre.
(b) A revised Scheme of Recruitment for the Corporation had been approved by the Department	It is agreed with the observation, no Efficiency Bar Examinations had been held from the inception of this Corporation up to now, permanency in the	Action should be taken to hold Efficiency Bar Examinations

of Management Services in the year 2018 under 09 service categories. However, all officers recruited under the said service categories had been made permanent without holding an Efficiency Bar Examination as mentioned in the Scheme of Recruitment.

service had been made up to now without holding relevant Efficiency Bar Examinations, steps will be taken to carry out performance evaluations for all staffs before the end of the year 2022 and moreover necessary steps will be taken to make the employees permanent and to promote them according to relevant evaluations.

properly according to relevant Schemes of Recruitment.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
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<p>All Government institutions should act in terms of the “2030 Agenda” of the United Nations on sustainable development. However, the Corporation had not acted with adequate knowledge on the manner of implementing functions coming under its scope relating to the year under review. As such, action had not been taken in terms of the “2030 Agenda” of the United Nations relating to sustainable development goals, targets and the focal points in achieving those targets and to identify the indicators for measuring the achievement of those targets.</p>	<p>It is agreed with the observation, in terms of the “2030 Agenda” of the United Nations on sustainable development, action will be taken on sustainable development goals and targets relating to the role of the Corporation and on the achievement of those targets and on indicators in achieving institutional targets and that special attention will be paid in this connection in the preparation of the Organizational Structure relating to 2022-2026 period and the Action Plan relating to the year 2022.</p>	<p>Action should be taken to identify and measure the progress relating to targets and indicators in the achievement of sustainable development goals.</p>