

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 2021 comprising the statement of financial position as at 31 December 2021 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be presented in 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 Corporation as at 31 December 2021, 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 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 Corporation'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 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 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 Responsibilities on 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 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 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to particular Standard	Comments of the Management	Recommendation
(a) The amounts in the financial statements presented for the year under review had not been rounded to the nearest rupee in accordance with Paragraph 51 of Sri Lanka Accounting Standard 1.	It is impossible for the trial balance values to round up to the nearest rupees through the computer accounting system and the matter will be discussed with the company that controls the computer software.	Actions should be taken in accordance with Sri Lanka Accounting Standards.
(b) It was observed that the value of the remaining stock in the financial statements as at 31 December 2021 amounting to Rs.323,564,606 had not been recognized in terms of the provisions of Sri Lanka		

Accounting Standard 2 according to the following observations.

(i) Due to the fact that the stock ledgers which were maintained in accordance with the terms shown in Paragraph 25 of the Standard to calculate the cost of the finished drug stocks in 03 warehouses of the Corporation and 19 sales outlets all over the island were not updated, the actual cost of remaining stock of finished drugs as at 31 December 2021 could not be able to calculate. As a result, the value of the finished drug stock was calculated and accounted for as Rs. 129,032,821 as at 31 December 2021 by increasing the number of remaining units shown in the inventory ledger by the estimated cost of production. Similarly, the estimated production cost of 38,868 bottles of remained drugs in the warehouses of finished drugs amounting to Rs. 4,417,736 and the cost of 5,499 drug units related to 10 types of drugs had not added to the remaining stock as at 31 December 2021.

(ii) The cost of 1,623 units of drugs related to 04 expired finished drugs had not been calculated and entered in the stock of damaged and expired finished drugs and the cost of damaged stock related to herb raw materials and packing materials had not been calculated and accounted for.

(iii) Since the stock verification of 05 herb raw material warehouses, 03 finished drug warehouses, 03 packing material warehouses and 12 finished drug outlets was done before and after 31 December 2021, although the remaining stock as at 31 December 2021 should be accurately calculated after making the necessary adjustments, actions had not been so taken. Actions had not been taken to adjust the stock shortages of finished

As the stock ledger was not computerized, it needs more labor costs for the calculation of the cost of the remaining stock at the end of the year and the accuracy therein is low, the steps will be taken to computerize the stock ledger in future and some value had not been added to the cost of stock and that the mistake will be corrected in future .

When considering the cost of the damaged and expired stock, the expired stock balance will increase furthermore.

As the stock ledger was not computerized, it is difficult to calculate the cost of remaining stock at the end of the year, steps will be taken to computerize the stock ledger in future, since the stock shortages and excesses cannot be accounted for till then, a provision has been made for

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The cost of expired, finished drugs, herb raw materials and packing materials should be accurately calculated and accounted for.

The accurate cost of the remaining stock should be calculated as at 31 December by following the cut-off procedure. The cost of stock shortages and excesses revealed in stock verification should be accurately accounted for.

drugs cost at Rs.8,127,355, sixteen herb raw materials cost at Rs.1,262,938 and stock shortages of 02 herb raw materials with the physical balance of 2,734 kg but not cost calculated and excess stock of 29 herb raw materials cost at Rs.2,425,139 to the remaining stock as at 31 December 2021 that had revealed at stock verification in Jaffna, Beruwala and Wijerama outlets.

- (iv) As the stationery stock ledger were not updated, the actual cost of 525,293 units of stationery belonging to 512 items of actual stationery consumption in the year under review and the actual cost of the remaining stationery stock as on 31 December 2021 could not be calculated. Although the purchase cost of stationery during the year under review was Rs.1,743,072 and the added value was Rs.5,174,573 to the cost of the remaining stationery stock amounting to Rs.3,431,501 as 31 December 2020, as a result of the cost of the remaining stationery stock has been calculated and accounted for as Rs.6,346,167 as at 31 December 2021, a sum of Rs.1,171,594 had been added to retained earnings of the cost of the remaining stationery stock as at 31 December 2021, it was further revealed that a number of 23,459 units of stationery related to the remaining 45 items of stationery had been valued and accounted for at one rupee per unit without identifying the actual cost and the cost of 02 stationery units for which there was no physical balance amounting to Rs.6,500 had been included in the cost of the remaining stock, and the cost of 2,041 stationery units had not been included in the stock, and the actions had not been taken to calculate and write off the cost of 57 unusable stationery units related to 06 items.

stock shortages.

This will be further investigated and corrected.

The cost of the actual stationery stock consumed during the year and the actual cost of the remaining stationery stock at the end of the year should be calculated and accounted for by updating the unit price and the value columns of the stationery stock ledgers.

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| <p>(v) Although the gold to be used in manufacturing <i>Rasa</i> Drugs should be accounted for at the lower value of cost or net realizable value of the remaining stock as at 31 December 2021 as per Paragraph 28 of the Standard, in contrary to that, their market value was estimated as Rs. 15,400,257 and accounted for and a surplus of Rs.4,341,879 was identified and added to the revaluation reserve considering as a revalued non-current asset. Further, due to the fact that this system has been followed for many years, a revaluation reserve of Rs.13,558,612 had been identified as at 31 December 2021.</p> | <p>As the cost of gold stock is difficult to find, its market value has been assessed in the year 2012 and the value has been accounted for as net realizable value.</p> | <p>As per paragraph 28 of the Standard, the lower value of cost or net realizable value of the remaining stock should be accounted for, whereas the assessed value in the year 2012 should be considered as cost and accounted for and the value to be accounted for should be determined by considering the net realizable value of subsequent years.</p> |
| <p>(c) Even though a 97 per cent that is Rs. 111,006,467 out of the debtor balance of Rs. 113,965,665 as at 01 January 2021 had been recovered during the year under review, it was impossible to recover the outstanding balance of Rs. 2,539,237 remained for more than 05 years. Without considering that, only a provision of Rs. 287,682 that is 0.25 per cent of the debtors as at 31 December 2021 had been made for bad debt provision. Although accounting policies can be changed when necessary to provide more reliable information in the financial statements of an entity as per Paragraph 14(b) of Sri Lanka Accounting Standard 8, policy of provision for bad debts had remained unchanged as compared to the risk.</p> | <p>Actions will be taken to change the percentage of bad debt provision in future.</p> | <p>The risk of non-recovery of the loan should be assessed and the provision for bad debts percentage should be decided accordingly.</p> |
| <p>(d) The stock computation policy adopted in the previous year had been changed in the year under review in contrary to the conditions set out in Paragraphs 14(a) and (b) of Sri Lanka Accounting Standard 8. Further, although the stock ledgers of finished drugs in sales outlets were maintained on a first-in, first-out basis, a misrepresentation that the remained finished drug stock and was</p> | <p>The accounting policy for stock computation has been changed for providing more reliable information from the financial statements.</p> | <p>Actions should be taken in terms of Sri Lanka Accounting Standards.</p> |

calculated and accounted for on the basis of average cost method had been disclosed by Notes to financial statements.

- (e) As a result of failure to review of residual value and useful life for non-current assets annually in terms of Paragraph 51 of Sri Lanka Accounting Standard 16, although 14 vehicles cost at Rs.36,631,967 had been fully depreciated, further being used. Actions had not been taken to revise the estimated error occurred accordingly in terms of Sri Lanka Accounting Standard 8.
- (f) Even though a provision of Rs. 40,174,665 had been made for gratuity based on 383 employees engaged as at 31 December 2018 as per the calculations made by a professional accounting firm using the actuarial method in terms of Sri Lanka Accounting Standard 19, as a result of other methods were followed, a sum of Rs. 6,883,348 had to be paid exceeding the provision made as at 31 December 2021 amounting to Rs. 16,950,449 as gratuity. Further, a provision of Rs. 649,488 had been made as pension gratuity for 32 employees who were recruited in the year under review and had not completed one year of service.

The assistance of the Department of Motor Traffic is being obtained in respect of valuation of vehicles.

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An external party was not used for the calculation of gratuity based on the existing financial situation of the institution, according to the general method, the sum of basic salary and living expenses allowance was divided by the number of employees and that value was obtained for allocating the gratuity and further studies will be taken on the existing matters.

Provisions for gratuities should be made annually using the actuarial method continuously. In terms of Sri Lankan Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation

- (a) Even the though invoices were received for 05 years from 2016 to 2020, the unsettled audit fees even by 31 December 2021, was Rs.6,001,200. Although the total audit fees to be paid as at that date was Rs.7,201,200 with the provision for the year 2021 amounting to Rs.1,200,000, since only a sum of Rs. 2,443,260 had been allocated as at that date, the under-provision was Rs. 4,757,940.

Comments of the Management

Accurate provisions will be made in the year 2022.

Recommendation

Financial statements for the next year should be prepared by correcting this mistake.

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| <p>(b) When paying advances to suppliers by an advance voucher and then paying the balance by settling the advance, although the total cost should be accounted for by preparing a payment voucher to pay the balance, the advances amounting to Rs.56,881,303 had been settled through 138 journal entries without preparing payment vouchers. Further, 138 journal vouchers prepared for those journal entries and 950 journal vouchers amounting to Rs. 1,028,672,220 prepared to correct errors and adjustments in the accounts as at 31 December 2021 had not been approved by a responsible officer.</p> | <p>Although a separate voucher is prepared if a payment is made in excess of the advance amount, a voucher is not prepared again if the advance amount is equal to the final payment amount.</p> | <p>Even though the advance amount is less than or equal to the total cost, a payment voucher is required to be prepared. All journal entries should be made subject to formal approvals and the respective vouchers should be approved by a responsible officer.</p> |
| <p>(c) Although the cost of production was Rs.630,629,340, as per the production account prepared for the year under review, thus the total production cost calculated on the estimated unit production cost was Rs.496,877,858 as per the production cost report that was prepared, the difference was Rs. 133,751,482. Without checking for these cost variations, the selling price of the drugs had been determined on the basis of the production cost of a unit which was mentioned in the production cost report.</p> | <p>As a result of increase in raw material prices due to Covid 19 pandemic, the production costs have increased and by computing the cost of finished goods, the selling price is determined on that basis at the end of the year.</p> | <p>The production cost and selling price of a unit should be determined by considering the actual cost of production recognized by the production account as absorbed by the total number of units produced and based on it .</p> |
| <p>(d) The estimated production cost of 133,873 units of damaged and expired finished drugs as at 31 December 2021 was Rs.3,287,068. However, thus the balance of the provision account for damaged stock as at that date was Rs.4,343,168, although the over-provision of Rs.1,056,100 should be recognized to the profit of the year under review, the necessary adjustments had not been made for that.</p> | <p>Provision has not been made for damaged stocks during the year 2021.</p> | <p>Actions should be taken to adjust the balance of the provision account as compared to the cost of damaged and expired stock.</p> |

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| (e) | Although a methodology had not been introduced to identify the cost of dry herb raw materials procured from herbal gardens, a quantity of 4,367 kg of dry herb raw materials and 9,113 kg of herb raw materials received from herbal gardens at Rs.1 per kg, and valuing a quantity of 5,261 kg of raw herb raw materials to a Rs.1,076,526 as Rs.1,090,006 had been accounted for under the prevailing market price as an herbal gardens income during the year under review. | The dry herb raw materials from herbal gardens are calculated and accounted for on the basis of Rs.1 per kg and certain raw materials are accounted for based on the stipulated certified price by the Corporation and arrangements will be made to account for these prices with proper valuation in future. | Arrangements should be made to introduce a proper systematic methodology that can be followed for identifying the cost of raw and dry herb raw materials procured from herbal gardens. |
| (f) | A sum of Rs. 362,000 had been accounted for as depreciation for the year under review for 03 vehicles including a motorcycle which was removed from service due to decayed and two vehicles not owned by the Corporation. | This will be corrected in future. | Financial statements for the next year should be prepared by correcting this mistake. |
| (g) | Actions had not been taken to identify Rs. 2,052,823 that had been directly received in 03 bank accounts for more than a year and take them into the books. Further, 05 old cheques valued at Rs. 33,592 that had deposited in 02 bank accounts but not realized had not been debited to the relevant debtors and credited to the bank account. | Arrangements will be made in future to recognize identifiable direct bank balances and account for the balance as another income. | -do- |
| (h) | A Price Committee had decided that the selling price of 01 kg of Kansa, which was mixed with the Choorna of the drugs and sold to private doctors and pharmaceutical factories, should be Rs.20,000. Accordingly, although the sales value of 199.2 kg of Kansa sold had been brought to accounts as Rs. 3,984,000, the basis used to determine the selling price of 01 kg of free Kansa as Rs.20,000 had not been disclosed in the financial statements. | Actions will be taken to disclose the basis used to determine the selling price of a kilogram of Kansa. | Sufficient extra information relating to special transactions should be disclosed in the financial statements. |
| (i) | When reconciling the sales reports of the Finance Division with the sales reports of the Marketing Division, as a result of understatement of credit sales and cash sales by Rs.2,030,444 and overstatement of mobile | The Accounts Division accounts for the sales on a cash basis and does not account for the credit sales and the Marketing Division | The sales income should be recognized on an accrual basis. A suitable mechanism should be introduced to |

sales by Rs.1,212,278, it was revealed that the sales income of the year under review had been understated by Rs.818,166 in the financial statements.

records gross sales.

maintain a continuous inter-relationship and constant comparison process between the Sales Division and the Accounts Division for compilation of updated sales information.

1.5.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Management	Recommendation
Although the debtor and creditor balances as at 31 December 2021 were Rs.109,665,691 and Rs.77,871,755 respectively, thus the balances were Rs.115,694,386 and Rs. 76,236,566 respectively, as per the age analysis prepared for debtors and creditors as at that date the difference was Rs.6,028,695 and Rs.1,635,462 respectively. The reasons for these differences were not given.	Arrangements will be made to update the computer software system and to correct this in future.	Balances as per the financial statements should be compared with the balances as per age analysis and the reasons for the difference should be checked and necessary corrections should be made.

1.5.4 Lack of Evidence for Audit

Audit Observation	Comments of the Management	Recommendation
(a) Out of 73 debtor balances amounting to Rs.109,665,691 as at 31 December 2021, the balance confirmations had been sent only to 43 balances of debtors amounting to Rs.106,667,889. Out of which, 33 balances amounting to Rs.83,038,311 had not been confirmed. Although the book value of 06 debtor balances was Rs.13,566,348, the balance was Rs. 10,739,172 as per the balance confirmation letters received, the balance which had been not confirmed was Rs.2,827,176. Accordingly, 69 debtor balances amounting to Rs. 88,863,289 had not been confirmed by balance confirmations.	Non-receipt of reply to balance confirmation letters is beyond the control of the Corporation and if there is a difference between the balance confirmation value and the book value, they will be identified and the further actions will be taken.	A formal check should be carried out in respect of the accuracy of debtor balances and the feasibility of debt recovery and its results should be submitted for audit.

(b) Out of 155 creditor balances of Rs.77,871,755 as at 31 December 2021, balance confirmation letters had been sent only to 86 balances of Rs.51,968,344. Out of which, the letters related to 08 balances amounting to Rs. 1,338,800 had not been received by the creditors and those letters had been returned. Out of 19 creditor balances that had been replied amounting to Rs. 24,083,111, two creditors valued at Rs. 116,965 had confirmed that there was no amount to be charged. Although the book value in respect of 02 other creditors was Rs.82,842, the balance confirmed by the creditors was Rs.47,088. Further, although the book value related to 05 creditors was Rs.4,300,370, the creditors had confirmed that the amount was Rs.9,050,143. Accordingly, 136 creditor balances amounting to Rs.52,153,455 had not been confirmed by the balance confirmation.

(c) Stock verification Reports related to the unfinished stock of Rs.21,926,628 and the remaining burn oil stock amounting to Rs.1,059,750, files required to check the loan amount of Rs.15,000,000 obtained from the National Health Development Fund which has remained unchanged since 04 years, information related to checking of the balance of Rs. 19,310,110 in Letter of Credit Account in the Bank of Ceylon and the documents confirming the ownership of land amounting to Rs. 636,000,000.

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A formal check should be carried out in respect of the accuracy of creditor balances and the feasibility of debt settlement and the results should be submitted for audit.

Actions will be taken to provide relevant documents for audit promptly.

Relevant information should be submitted for audit to verify the accuracy of these asset and liability account balances.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulation of Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 103,104 and 105	Actions had not been taken in respect of damaged and expired stock at a total cost of Rs.3,287,068 and stock shortages at a total cost of Rs.9,390,293 in terms of Financial Regulations. Further, immediate actions had not been taken regarding the financial irregularity of Rs. 4,275,076 occurred in two sales outlets of the Corporation by fraudulently changing and undercounting the bills, fraudulently entering the receipts and issues of drugs in the stock ledger and banking the cash receipts from sales in less in terms of Financial Regulations.	A Shortage and Excess Committee has been appointed, the Committee will make recommendations regarding shortages and excesses and damages and implement the relevant recommendations after obtaining the approval of the Board of Directors .	Actions should be taken in terms of Financial Regulations.
(ii) Financial Regulation 396	Actions had not been taken in respect of 04 cheques valued at Rs. 22,988 that were issued but not presented for payment in 02 bank accounts that exceeded 06 months in terms of Financial Regulations.	The necessary arrangements will be made according to the Financial Regulations in future.	-do-
(iii) Financial Regulations 371 (2) and (5) and Public Finance Circular No. 03/2015 dated	Although the unspent balance of an ad hoc sub-impresst issued should be settled before 31 December of the financial year in which the	A part of the advance amount as at 31 December 2021 has been settled and actions will be taken	-do-

14 July 2015	<p>imprest is issued, 28 ad hoc sub-impressts aggregating to Rs.337,549 issued to 28 officers had not been settled by 31 December 2021 . Although the ad hoc sub-impressts should be issued on a date close to the task to be done and settled immediately or within 10 days of the completion of the task, 148 ad hoc sub-impressts issued to 27 officers amounting to Rs.2,344,700 had been settled with a delay ranging from 11 days to 367 days .</p>	<p>expeditiously to recover the balance.</p>
(iv)Financial Regulations 387	<p>Although having overdraft facilities from a bank account is prohibited, the Board of Directors had decided to obtain overdraft facility on the fixed deposit amounting to Rs. 58,938,165 in the Bank of Ceylon and to open a current account in the name of the Corporation and for that, a bank current account was opened by depositing Rs. 200,000 on 03 August 2021.</p>	<p>The Corporation has not received a bank overdraft facility. -do-</p>
(b) Public Finance Circular No. 01/2014 dated 17 February 2014 Paragraph 4 (a), (c) and (d)	<p>The updated organizational structure of the institution, the approved and actual cadre, the activity plan prepared according to the Budget priorities, the time frame and the expected output had not been included in the Action Plan prepared for the year under review . Further, only the capital activities with Treasury allocations were included under the capital activities plan in the Action</p>	<p>Since this plan was prepared during the peak periods of the Covid-19 pandemic in 2020 and 2021, the plan was prepared at the time of difficulties and problems encountered in obtaining information, the Action Plan for the year 2022 has been prepared in accordance with the guidelines and Actions should be taken in terms of Circular Provisions.</p>

		Plan and the capital activities of Rs.40,867,359 that were done from the funds of the Corporation had not been entered in it.	models given by the relevant circulars and the Line Ministry and arrangements will be made the in terms of the relevant Guidelines for the future years as well.	
(c)	Paragraph 3.5 of Public Enterprises Circular No. 02/2013 dated 11 September 2013	An amount equal to Rs.33,286,336 which was the gratuity fund as at 31 December 2021 had not been invested in order to provide the relevant money to an employee as soon as possible after he became eligible to receive gratuity funds.	A sum of Rs. 104,444,914 has been deposited in a fixed deposit in the Bank of Ceylon as funds required for employee gratuity.	Arrangements should be made to invest an amount equal to the gratuity fund in a separate bank account which cannot be withdrawn for any other reason.
(d)	Department of Public Enterprises Circular No. 95 dated 14 June 1994	A total of Rs.71,161,631 including production incentives of Rs.52,781,881, attendance allowances of Rs.5,987,000, productivity allowances of Rs.12,392,750 during the year under review and a sum of Rs.546,141,514 for 07 preceding years had been paid as incentives without obtaining the approval of the General Treasury.	Agree with observation, incentives have been paid with the approval of the Board of Directors and a new incentive scheme has been prepared and forwarded to the Treasury for approval by the Board of Directors and the recommendation of the State Ministry of Local Medicine Promotion, Rural and Ayurvedic Hospital Development and Community Health at present.	Incentives should be paid only on a formally approved incentive scheme.
(e)	Guidelines 4.2.1 and 4.2.2 of the Government Procurement Guidelines	A Master Procurement Plan scheduling expected procurement activities for a period of at least 3 years, and a Procurement Timetable describing the steps of each	A Master Procurement Plan and a Procurement Schedule will be prepared and actions will be taken accordingly.	Arrangements should be made in accordance with the Guidelines of the Government Procurement

procurement action in a timely manner from start to end of each procurement had not been prepared.

Guidelines.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs.14,500,336 and the surplus of the preceding year as against to that was Rs. 6,104,391. Accordingly, a deterioration of Rs.20,604,727 was observed in financial results. Although the sales of the year under review had increased by Rs. 123,918,897 as compared to the preceding year, the increase of cost of sales also by Rs.121,991,469 and decrease of financial income on fixed deposits by Rs.9,315,848, and increase of institutional and administrative expenses and selling and distribution expenses by Rs.17,810,301 and Rs.3,290,970 respectively had mainly attributed for this deterioration. Rs20,604,727

2.2 Trend Analysis of Major Revenue and Expenditure

Although the sales income of the year under review had increased by 18.32 per cent as compared to the previous year, the sales income had also increased by 25.85 per cent. Although the other income had increased by 52.01 per cent, the financial income had decreased by 79.39 per cent.

2.3 Ratio Analysis

The gross profit ratio had decreased by 4.44 per cent and the net profit ratio had decreased by 2.71 per cent in the year under review as compared to the previous year.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

Comments of the Management

Recommendation

(a) Although it is possible to increase the productivity of the organization by implementing an incentive calculated on the increase in the quantity of relevant production units by placing a weight on the type of drug produced for employees who directly contribute to production activities, instead of such a system, an amount between	Although the incentive expense has increased during the year under review as compared to the previous year, it has been affected by the increase in the annual total production and the total production in the year 2020 amounting to Rs. 367 million has risen up to 473 million in	Although the cost of production has increased by 26.25 per cent in the year under review as compared to the previous year, the increase in production units was only 5.86 per cent. Accordingly, actions
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Rs.03 million and Rs.07 million was paid monthly as production incentives to the employees in all Divisions of the Corporation, based on the monthly production cost which increased beyond Rs.15 million. This incentive cost which was Rs.33,597,472 in the preceding year had increased by 57 per cent to Rs. 52,781,881 in the year under review and even though the profitability of the Corporation decreased when the cost of production increased, the production incentive paid had to be increased.

the year 2021.

should be taken to increase the productivity of the organization by introducing an incentive calculated not on the cost of production but on the increase in the quantity of related production units for employees who directly contribute to production activities.

(b) Stocks had not been properly stored in warehouses and it was observed that the drugs that were removed from the sale were stored together with the expired drugs, and the necessary measures were not taken to re-label and sell the stocks and the expired and unusable drugs in the sales outlets and warehouses have not been removed from the stock books for a long time and calculated as normal stock and a large amount of space in the sales outlets was underutilized because of the reasons such as Maximum, minimum and reorder stock levels were not maintained, sales promotion tactics were not used to identify slow moving stock and sales, drug price increases, labels and packing were blurred.

Activities such as paying attention to maintain the stock level in an optimal manner, carrying out supply activities paying attention to sales variations, carrying out proper packing and labeling, taking actions in respect of expired stocks, running Ayurvedic Medical Clinics, installing new promotional boards and renting out space.in order to make maximum use of the available space in the sales outlets .

Warehouse and stock administration should be properly carried out.

(c) Although a sum of Rs. 1,808,795 had been spent for the development of the herbal garden in Anuradhapura and the construction of the boundary fence, the land was not formally handed over to the Corporation.

The land has been assigned to the Corporation for the cultivation of herbal crops by the letter No.: අනු/3/5/1/9/1/17 dated 18 November 2009 of Medavachchiya Divisional Secretary.

Actions should be taken to acquire the land to the Corporation properly.

3.2 Operational Review

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Out of sales revenue of Rs.800,223,256 for the year under review, a sum of Rs.575,874,165 that is 72 per cent had been received by the public sector and out of this, only Rs. 224,349,091 that is 28 per cent had been received from the private sector. More inclination on spontaneous public sector demand, inadequate identification of market needs, lack of use of new marketing strategies and inadequate advertising had caused to decrease the sales revenue in the private sector.	The steps have been taken to protect and grow market share by maintaining good coordination with the Departments and Local Authorities by the Marketing Division, establishing sales centers in densely populated areas to increase private sector sales by 25 per cent, conducting advertising and promotional activities, carrying out suburb promotional activities and carrying out the activities such as distribution of newspaper advertisements, radio advertisements and promotional leaflets and the arrangements are being made to increase sales in the private sector by making the local sales and distribution activities efficient by the District Sales Representatives.	Actions should be taken to improve the sales income of the private sector.
(b) The Corporation had not conducted a timely market survey to determine its market share and there was no understanding whether the market share of the Corporation had decreased or increased among competitive firms.	Although several market surveys related to the products of the Corporation have been completed so far, it was a test check and the Marketing Division has already prepared the survey papers and other preliminary work related to conducting a survey to determine the market share.	A market survey should be conducted to determine the market share of the Corporation and to grow it as well as to identify market trends to satisfy new customer needs.
(c) Although the planned annual drug production under 13 products such as Arishta, Asava, Lepa, Kwatha, Rasa, Modaka, Thaila, Sirap, Vatika, Gugul, Kalka, Churna, Leha etc. were 88,931kg and 760,364 bottles of 750ml. , the actual production was 70,081 kg and 482,149 bottles of 750ml. . Accordingly, the expected annual production	As a result of the matters such as the rapid spread of the Covid-19 epidemic, the imposition of travelling restrictions, several of the Corporation's staff being infected with Covid-19, reducing of staff attendance due to transportation issues, delay in supply due to problems in collection and transportation of raw materials to suppliers, there was a difference in between the amount of job cards planned and the amount of actual job cards completed during the year.	Production plans for the following year should be prepared taking into account the capacity of the previous years and the available resources and sufficient performance should be maintained to achieve production targets.

could not be achieved by 18,850 kg and 278,215 bottles of 750ml. respectively. Even though 2138 job cards had been planned for the year, the actual number of completed projects was 1396 and as it was impossible to complete 742 jobs had mainly attributed to failure to achieve expected production targets.

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| (d) | As per the Production Plan and Marketing Plan prepared by the Corporation, performance indicators were not established to evaluate the functions of the processes of various Divisions of the Corporation and the performance of those functions was not reviewed. | Actions will be taken to establish and review performance indicators to indicate the processes of the relevant Divisions in preparing the Production Plan and Marketing Plan. | Performance indicators should be established to evaluate the performance of the processes in each Division of the Corporation and review the performance of those functions. |
| (e) | Actions had not been taken to achieve the objectives such as to obtain fresh milk to produce ghee required for the production of Ayurvedic drugs, to run dairy farms, to raise bees to produce honey required for the preparation of drugs and to develop beekeeping as a cottage industry out of 07 objectives of Corporation in terms of the notification mentioned in Special Gazette No. 14,853/3 dated 11 May 1969 of Sri Lanka. | Although honey boxes have been established in herbal gardens owned by the Corporation, the programme has not been successful, the doctors have already been identified in relation to a pilot project where 100 boxes of bees with colonies will be provided and production and purchase of honey from the Corporation will be commenced and because a high cost has to be incurred to maintain herds of cow to get ghee and fresh milk, it will be bought from Milco, which is a government agency. | Actions should be taken to carry out the main objectives of the Corporation or to revise the objectives to match with practical conditions. |

3.3 Underutilization of Funds

Audit Observation

Comments of the Management

Recommendation

(a) Out of Rs.102 million received from the Treasury as capital grants in 2017, 2018, 2020 and 2021, a sum of Rs. .54.1 million that is Rs. 53 per cent had been retained in a bank account without being utilized by the end of the year under review.

The allocations received from the Treasury for capital projects of the Corporation have been deposited in a separate current account, the amount received for the development projects has been paid in advance to the party that has been awarded the tender for each project and the balance is still in the current account.

Only essential and prominent projects that can contribute to the development of the country by fulfilling the objectives of the Corporation should be planned and only necessary allocations should be obtained from the General Treasury for the successful implementation of those plans. Actions should be taken to re-review the Projects related to remained capital grants and essential works should be completed.

(b) With the view of meeting the necessity of the patients' for Rasa Drugs and building a healthy society, construction of *Rasa Drugs Plant* with an estimated cost of Rs.38.5 million had been commenced on 12 July 2018 with a Treasury provision of Rs.37,000,000. Even though more than 03 years had elapsed by 20 September 2020, only a financial progress of 31.4 per cent that is Rs.11,618,072 and a physical progress of 25 per cent had been achieved.

The construction has been done as normal until February 2020, although the height of the first floor of the building was 11 feet, the plans has been prepared to be 9 ½ feet by a mistake, this was observed during construction, the Engineers of the State Engineering Corporation of Sri Lanka have recommended additional works of Rs.240,317 to increase the height of the first floor by 450mm, the fee has been decided to be deducted from the consultancy service fees, further, due to the Covid-19 pandemic situation and the unexpected increase in the

Arrangements should be made to commence the future works of the Project as soon as possible.

market price of building construction materials, the construction works have been hindered and the future works of the project will be commenced as soon as possible.

3.4 Uneconomic Transactions

Audit Observation

(a) Although only the Ayurvedic Corporation was able to directly import several herb raw materials including sesame oil for the products of the Corporation under customs duty free import on a certificate issued by Ayurveda Commissioner in terms of Schedule 05 of the Special Gazette of the Democratic Socialist Republic of Sri Lanka No. 1702/5 dated 20 April 2011, without doing so, sesame oil had been purchased at a relatively high price from private suppliers who import and supply sesame oil. Accordingly, the Corporation had purchased oil valued at Rs.153,353,412. during the period from 2018 to 2021.

(b) The Corporation had issued drugs valued at Rs.1,534,490 free of charge in 120 cases and their cost was Rs.579,069 as donations under sales and distribution expenses. Although the money related to the donations above Rs.10,000, which have not been approved by the Board of Directors except at the request of the Minister in charge, should be collected from the relevant officials as per the Decision of Board of Directors No. 13406 dated 08 July 2019 , actions had not been so

Comments of the Management

Actions are being taken to directly import of dry and flavored drugs and oils, a problematic situation has arisen due to foreign exchange issues and supplier payment conditions, there are also cases where we have to buy from local markets at competitive prices by considering the urgent need and that special attention will be paid to the import of sesame oil.

The approval is obtained for donating the manufactured drugs time to time, that it has not been possible to obtain the approval of the Board of Directors on several occasions, Guidelines have been prepared and approval of the Board of Directors on how to deal with donations with special attention in this regard and steps have been taken to make arrangements in future.

Recommendation

Arrangements should always be made to procure high quality raw materials at relatively low cost for drug production.

Except for properly planned sales promotion programmes, drugs produced for sale should not be released free of charge for charitable purposes and donations at the personal discretion of the officers. Board approval should be obtained by introducing a proper system to be followed in relation to the

taken in respect of donations of Rs.681,680 exceeding Rs.10,000 in 14 cases .

disposal of drugs in another way other than sale. Records and books should be maintained specifying the recommendations, approvals and supervision relating to such disposals.

3.5 Procurement Management

Audit Observation

Comments of the Management

Recommendation

(a) Although the notes had been made that the prices were called from 20 sesame oil suppliers for the year under review, the written evidences that can be confirmed were not submitted for the audit. A quantity of 71,660.5 kg of sesame oil for Rs. 35,277,148 under 05 different prices from 03 suppliers on 04 occasions in the year 2020 and a quantity of 86,590.5 kg of sesame oil for Rs. 58,458,394 under 05 different prices from 02 suppliers on 03 occasions in the year 2021 had been purchased. The purchases had been made under informal procurement methods such as non-issuance of letters of acceptance, non-receipt of performance bond and failure to enter into agreement with any supplier in contrary to the provisions of the Procurement Guidelines. Although the production was delayed and stalled on several occasions due to non-delivery of stock as agreed, delay in stock, failure to supply and increase in price due to failure to enter into formal agreements with suppliers, the Corporation was unable to take legal actions against the concerned suppliers and tenders were re-awarded to such suppliers who had to be blacklisted.

Comments had not been given.

Actions should be taken in accordance with the Guidelines of the Government Procurement Guideline.

(b) It was observed during the audit that there were the deficiencies such as failure to appoint the Bid Opening Committee formally by the Procurement Committee, opening the tender after the scheduled time, receiving and accepting 05 tender applications after the scheduled time, failure to

That bids will be formally opened, that bid opening committees will be formally appointed in the future, bid opening documents will be formally maintained, as the

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maintain tender opening records formally, failure to receive adequate bid securities from 04 suppliers, awarding tender for the contract value of Rs. 2,511,343 to a supplier who had submitted incomplete bid applications without providing a performance guarantee, having performance guarantees late from three suppliers, and failure to sign formal agreements with suppliers regarding tender values in relation to the procurement of Rs. 22,268,024 related to the purchase of raw drugs related to 28 types of projects. Further, due to the fact that the failure to evaluate the prices by comparing the prices based on a cost estimate prepared by the subject experts and evaluating by Technical Evaluation Committee by the comparing the total price of the worksheets with the previous year without evaluating the individual prices of the drugs contained in the worksheets, the supply prices of drugs in some projects had increased from 25 per cent to 118 per cent was observed as compared to preceding year.

date of tender opening is a special holiday or there were some other reasons that the tender box will be sealed on time and opened on the nearest day that existed, due to the Covid-19 epidemic situation and the economic crisis, the procurement activities had to be done more flexibly, with the request of the suppliers and the approval of the Procurement Committee, the bid security and performance guarantees had to be obtained in delay or essential drug raw materials had to be purchased without obtaining those guarantees, procurement activities with higher values that it was arranged to contract whenever possible, that it is impractical to call quotations for drug ingredients separately, that purchasing all raw materials from the same supplier is convenient for the production process and the price of drug raw materials increased due to transportation and supply problems.

3.6 Human Resources Management

Audit Observation

Comments of the Management

Recommendation

(a) It was revealed at the audit test checks that the shortcomings such as changing recruitment procedures and interview environment to appoint pre-specified people to positions based on different relationships, making appointments to other positions after being recruited to

There has been no recruitment of pre-specified persons for the position or alteration of interview environments, there were cases where some employees who were

All appointments should be made in accordance with the relevant recruitment procedures and in a transparent manner. Arrangements should be made to conduct efficiency

certain positions, assigning responsibilities or not assigning responsibilities for the duties of respective positions without considering the hierarchy, giving grade promotions and pay increments without conducting efficiency bar examinations had existed in respect of Human Resource Management of the Corporation.

recruited in the primary service categories were employed in the duties related to the positions of management assistants, those employees have been employed only for the duties of the regular position and final decisions have been taken regarding the conduct of efficiency bar examinations at present.

bar examinations within prescribed periods, to give promotions only according to prescribed procedures, to assign responsibilities and powers related to the posts properly.

(b) Although the Department of Management Services had approved a Revised Scheme of Recruitment for the Corporation under 09 service categories in the year 2018, all the officers recruited to the positions under that service category had been confirmed in the service without conducting an efficiency bar examination as mentioned in the Scheme of Recruitment.

The efficiency bar examinations have not been conducted since the beginning of the Corporation, the confirmations in the service have been made without conducting the relevant efficiency bar examinations, the basic activities necessary to formally conduct the efficiency bar examinations have been done and actions will be taken to get the services of an organization that specializes in that considering the number of staff, types of services, etc.

Actions should be taken to conduct the efficiency bar examinations properly as per applicable recruitment procedures.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Observation

Although every government agency is required to act in accordance with the United Nations 2030 “Agenda” on Sustainable Development,

Comments of the Management

That future activities will be done with special attention to the Sustainable Development

Recommendation

Measures should be taken to identify targets, indicators

arrangements had not been made with sufficient understanding on how the Corporation should operate in relation to the tasks under its purview in relation to the year under review. Accordingly, actions had not been taken to identify the Sustainable Development Goals, targets and milestones to achieve the goals and the indicators for measuring the progress on the goals related to the activities of the organization as per the United Nations Agenda 2030.

Goals, targets and achievement of those goals related to the role of the Corporation and the indicators of achieving corporate goals, the attention was drawn in this regard while preparing the Corporate Plan for the period 2022-2026 and the Action Plan for the year 2022 and the attention will be paid to this while preparing the 2023-2027 Corporate Plan and the 2023 Action Plan.

and measure progress in relation to achieving of Sustainable Development Goals.