

## **Sri Lanka Ayurvedic Drugs Corporation - 2022**

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### **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 2022 comprising the statement of financial position as at 31 December 2022 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, 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 report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified on the matters described in paragraph 1.5 of this report

I conducted my audit in accordance with Sri Lanka Auditing Standards (Slays). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 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 Responsibilities for the Audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 to cease 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 had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Internal Control over the preparation of Financial Statements\

It is necessary to maintain a "well-designed" internal accounting control system sufficient to obtain reasonable confirmation for such as execution of transaction with general and precise authority of the management, recording transactions and maintaining accountability for assets as required to prepare financial statements in accordance with applicable reporting standards, access to assets only with the general and specific authority of management, to comparing the accountability for the recorded assets with the existing assets in reasonable periods of time and take appropriate action if there are any differences. The audit observations related to maintenance of main accounting records such as General Ledger, Journal, Journal Vouchers, and Payment Vouchers are presented as follows.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Rs.59,857,724 of expenses incurred during the year for purchase of assets such as office equipment and spare parts of machinery, purchase of raw materials and packaging materials, purchase of welfare and building maintenance materials were debited to the stationery account and had been transferred to the respective accounts through journal entries at the end of the year instead of properly classifying and accounting the relevant expenditure at the time of accounting the payment vouchers.	That the facts indicated are correct and the store keeper has been instructed to maintain the stationery store and machine spare parts store separately in the computer package from 01 January 2024.	Necessary controls should be established for correct classification and accounting of the relevant expenditure at the time of preparation of the payment voucher, using a code numbering system in which the subjects of expenditure can be identified.
(b) Rs.2,282,675 of cash and cheques more than a year old which were directly received to the 02 bank accounts including the amount of Rs.224,168 which was stated in the bank reconciliation from the year 2013 had not been specifically identified and taken into the accounts.	That the action will be taken in future to identify the identifiable balances received directly to the bank and to account the rest as other income.	It should be corrected and submitted for audit before presenting the accounts for the year 2023.
(c) The 1438 journal vouchers amounting to Rs.2,090,700,289 prepared to correct errors in the accounts, make adjustments and settle advances as of 31 December 2022 had not been checked and approved by a responsible officer. Further, although	Agreeing to the observation and action will be taken to correct it.	It should be corrected and submitted for audit before presenting the accounts for the year 2023.

the 36 computerized journal entries amounting to Rs.151,744,869 were subsequently cancelled, those journal vouchers had not been approved by a responsible officer during preparation and also in the cancellation and, note of cancellation had not been kept on the journal voucher.

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| (d) | Rs.1,148,002 of amortization related to the new electricity distribution system, Rs.916,212 of building depreciation and Rs.196,395 of vehicle depreciation in less and depreciation of inventory items amounting to Rs.25,891 in more had not been taken into consideration while preparing the related journal voucher to account for depreciation and amortization in the year under review.                           | Agreeing to the observation and action will be taken to correct it.   | It should be corrected and submitted for audit before presenting the accounts for the year 2023.   |
| (e) | Although the production cost was Rs.726,151,032 according to the production account prepared for the year under review, the total production cost was Rs.495,632,070 according to the production cost reports prepared on a quarterly basis based on the unit production cost, and due to that, the difference was Rs.230,518,961. These cost variations had not been checked and relevant adjustments had not been made. | Attention will be paid to the discrepancies in this regard and steps will be taken to update the account information correctly. | The production cost per unit should be determined based on the fact that the actual cost of production identified as per the production account has been absorbed by the total number of units produced. These cost variations should be checked and related adjustments should be made. |

### 1.5.2 Non-compliance with Sri Lanka Accounting Standards

<b>Non-compliance with reference to the relevant Standard</b>	<b>Comments of Management</b>	<b>the Recommendation</b>
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| (a) | The following observations are made regarding non-compliance with the provisions of Sri Lanka Accounting Standard 1. |
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- (i) As per paragraph 32 of the standard, instead of accounting the amortization amount of Rs.19,487,730 related to the fixed assets of Rs.304,227,234 received as government grants up to the year under review as a deferred income, amortization amount was offset to the total provision for depreciation amount of Rs.57,091,291 in the year under review and the net difference had been shown in the financial statements.
- Agreeing with the query and correction will be done in the preparation of accounts for the year 2023.
- It should be act as per the Sri Lanka Accounting Standards.
- (ii) Although a grant of Rs.15,000,000 had been given to the corporation by the National Health Development Fund on 26 May 2015 for the project of introducing and popularizing 10 new Ayurvedic products in the open market, due to this grant was not presented as income in accordance with paragraph 88 of the Standard, an incorrect current liability had been represented in the financial statements.
- According to the information available in the institution, since it cannot be confirmed whether this Rs.15 million is a liability to be repaid or a grant, it has been accounted as a current liability.
- It should be act as per the Sri Lanka Accounting Standards.
- (b) According to the following observations, it was observed that the value of the balance stocks shown in the financial statements as of 31 December 2022 had not been recognized in accordance with the provisions of Sri Lanka Accounting Standard 2.
- (i) Regarding the finished stock held in 03 warehouses of the corporation and 17 drug stores all over the island, although the stock ledgers were maintained on a first-in-first-out basis as per paragraph 25 of the standard, the unit price and value columns of those stock ledgers had not been updated. In accordance with paragraphs 27 and 28 of the standard, instead of using the lower value for the financial statements at the end of the year after comparing the value of
- In order to overcome these problems, procurement activities are being carried out to introduce a new computer package by networking all the sales centres and that these problems will not arise in the future.
- According to the standard, the unit price and value columns of the stock ledgers should be updated continuously following one of the cost methods of first-in-first-out or weighted-average method, and the cost of issued stock and the cost of year-end stock should be calculated based on the and accounted. Stock

stock balance which is obviously received by maintaining the stock ledger with the net realized value, the value of the finished drug stock balance as on 31 December 2022 was calculated and accounted as Rs.177,928,072 after multiplying the number of units remaining in the inventory ledger by the estimated manufacturing cost. Furthermore, the notes to the financial statements revealed a false statement that the remaining finished drugs inventory was calculated and accounted for based on the weighted average cost method even though the finished drugs inventory ledger was maintained on a first-in, first-out basis.

ledger books should be maintained in non-computerized divisions.

- (ii) During the period for which the physical stock verification is being carried out in respect of the raw material stock of Rs.96,125,058, the finished good stock of Rs.177,928,072 and the packing material stock of Rs.39,356,268, actions had not been taken to suspend the movement of stock or to set aside the amount of stock likely to be moved during the said period in operation on estimated basis and, the physical stock verification had been carried out while continuing the normal operational process. Accordingly, although the stock receipts and issues during the physical stock verification period for each goods should be adjust to the balances in the physical stock verification reports, there had no evidence of done so.
- Action will be taken not to issue and receive goods during the annual stock verification from the year 2023.
- It should be act as per the Sri Lanka Accounting Standards.

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| (iii) | The final stock had been overstated by Rs.28,772,750 due to the facts that, over stated the cost of 203 bottles by Rs.26,008,131 due to the unit cost of Rs.1,294.13 of a 750 ml bottle of Kedum Bindum Thilaya was shown as Rs.129,413, by Rs.1,609,264 due to over counting the 9665 of 100 ml Bee Honey bottles, by Rs.1,034,847 due to over counting of 1098 kilograms of Bhashkara Lawana, by Rs.120,508 due to over counting of 03 drugs that were not in the raw material warehouse during the stock verification and understated by Rs.1,975,542 due to the abandonment of 8673 units belonging to 189 products in the Navinna store during the stock verification. | Agreeing to the observation and action will be taken to rectify these matters in the 2023 accounting year.  | It should be act as per the Sri Lanka Accounting Standards. |
| (iv)  | According to the annual stock verification reports, 2234 units out of 284 types of usable building materials, electrical equipment and accessories, machine equipment spare parts, plumbing fittings and other materials and, 285 unusable units in warehouse number 14 had not been taken into account in stock accounting.  | That agreeing with the query and that the instructions have been given to the relevant warehouse officers to account that information correctly as computer packages are available in quantities without stock value. | It should be act as per the Sri Lanka Accounting Standards. |
| (c)   | The following observations are made regarding non-compliance with the provisions of Sri Lanka Accounting Standard 7.  |   |   |
| (i)   | Instead of reporting the gross receipts of Rs.254,054,982 of 07 Fixed Deposits closed during the year ended 31 December 2022 and disbursements of Rs.175,000,000 in 05 newly opened fixed deposits separately under investing activities in the statement of cash flows as per paragraph 21 of the above mentioned Act and adjusting the interest receivable under operating activities,  | Agreeing to the observation and that these facts will be taken into account in preparing the statement of cash flows from the accounting year 2023 onwards.   | It should be act as per the Sri Lanka Accounting Standards. |

it had been reported as a cash inflow on a net basis.

- (ii) Although cash payments to suppliers for goods and services should be reported under cash flows from operating activities in accordance with paragraph 14(c) of the above mentioned standard, Rs.11,985,681 paid to suppliers of imported goods through the letter of credit margin account in the year under review had been reported under cash flows generated from investment activities.
- Agreeing to the observation and that these facts will be taken into account in preparing the statement of cash flows from the accounting year 2023 onwards.
- It should be act as per the Sri Lanka Accounting Standards
- (d) As per Sri Lanka Accounting Standard 19, according to the calculations made by a professional accounting firm using actuarial method based on 383 employees engaged on 31 December 2018, Rs.40,174,665 was reserved for gratuity and it was not followed in subsequent years. In the year under review, even though there was a false note in the financial statements that this standard was followed, it had not been done accordingly and instead of that, half of the sum of salaries in December or Rs.4,522,772 for 240 employees of the corporation of the year under review had been accounted as gratuity in the year under review. In response to the queries, although it was stated that gratuity has been allocated according to the Payment of Gratuity Act No.12 of 1983, even though the amount to be allocated according to that Act should be Rs.85,751,940, the under provisions was Rs.50,290,234 as the amount allocated at the end of the year under review was Rs.35,461,706.
- That the Board Paper has submitted to obtain support from an external audit agency for the bonus calculations under the actuarial method as before and that the related adjustments will be accounted for in the next accounting year according to the approval received.
- According to Sri Lanka Accounting Standard 19, provisions for gratuities should be made annually continuously using the actuarial method.

### 1.5.3 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
(a) A decision of board of director No.14193 dated 28 April 2022 had been taken to set a price for the drugs raw materials received free of charge by a price committee and include them in the financial statements according to the legal provisions and accordingly, the amount of Kansa Agil and Kothala Hibutu received on 31 December 2021 was valued at Rs.52,744,536 and it had been accounted as a deferred income and the amount used for production in the year 2021 was valued at Rs.8,092,119 and it had been accounted as miscellaneous income. However, it had been decided in the board meeting No.14420 dated 16 June 2023 to reverse the said accounting stating that the valuation of materials received in free of charge would have an adverse effect on the information presented in the financial statements. Accordingly, at the end of the year under review, the balance of Rs.52,744,536 of the deferred income account had been readjusted between the accounts. Accordingly, it was observed that the corporation had failed to introduce an appropriate and specific accounting policy regarding drugs received free of charge and to follow it continuously.	Agree with the query and it will be corrected in the 2023 accounting year.	An appropriate and specific accounting policy for drugs received free of charge should be introduced and followed consistently.
(b) A formal system had not been introduced to identify the cost of dry herb material procured from the herbal gardens owned by the Corporation. Accordingly, during the year under review, dry herb raw materials received from herbal gardens were valued as 4,665 kg at Rs.1 each and 21,423 kg at the prevailing market price and had been accounted for Rs.6,196,457.	That the raw materials obtained from the herbal gardens to the factories will be taken into account according to the guaranteed prices set by the corporation and for the raw materials which has not set guaranteed price will be taken into account with a time-based pricing.	Actions should be taken to introduce a systematic method that can be followed continuously for identifying the cost of raw and dry herb materials procured from herbal gardens.

- (c) A price committee had decided that the selling price of 01 kg of Kansa, which is mixed with the Choornaya of the drug and sold to private doctors and drug factories, should be Rs.20,000 last year and Rs.15,000 in the year under review. Accordingly, the Kansa sold had been accounted as 199.2 kg in the previous year and 224.69 kg in the year under review worth Rs.3,984,000 and Rs.3,370,350 respectively. Action had not been taken to disclose the basis used to determine the selling price of one kilogram of Kansa which was received free of charge and is a prohibited substance not sold in the general market as Rs.20,000 in the previous year and Rs.15,000 in the year under review in the financial statement of the previous year and also in the year under review.
- That the corporation receives the consignments of dry and raw Kansa seized by the police and the army on the basis of court orders. That a doctor, an on-site officer, a security officer, take charge of the stock of dry Kansa and transport it to the corporation. In the case of arrest of cut raw plants, the cost of collection, transportation, drying, storage, etc. will vary and the price will be determined by paying attention to this.
- Sufficient extraneous information relating to special transactions should be disclosed in the financial statements.

#### 1.5.4 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though a provision of Rs.8,670,825 had been made for damaged and expired stock in warehouses and drug outlets as on 31 December of the year under review, the under provision was Rs.4,215,118 due to the actual value of the damaged and expired stock was Rs.12,885,943. Furthermore, although the estimated production cost of 133,873 units of damaged and expired finished drugs on 31 December of the previous year was Rs.3,287,068, since the balance of the provision account for damaged stocks on that day was Rs.4,343,168 and even though Rs.1,056,100 should be recognized in the previous year's profit, the necessary adjustments had not been made for that also.	Agree with the query and correction will be made in the 2023 accounting year.	Arrangements should be made to adjust the balance of the provision account against the cost of damaged and expired stocks.

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| (b) | It was observed that, the sales revenue of the year under review had been understated by Rs.13,666,506 in the financial statements due to the facts that, the cash sales of Rs.732,947 and credit sales of Rs.14,004,863 has been under accounted and mobile sales has been over accounted by Rs.1,070,304 in comparing the sales reports of the sales department with the sales reports of the finance department. | Agree with the query and that Accounts Department maintains sales records based on source documents and Sales Department maintains sales records without source documents for their own use.  | Sales revenue should be recognized on an accrual basis. A suitable mechanism should be introduced to maintain continuous inter-connection and regular comparison process between sales department and accounts department for compilation of updated sales information. |
| (c) | According to the financial statements, although the employee's guarantee to be paid on 31 December 2022 is Rs.267,815, since the unreleased guarantee value of 68 employees of the corporation was Rs.851,215 according to the individual balance sheet of the employee's guarantee, it was observed that the employee's guarantee of Rs.583,400 had been under accounted.  | Agree to the audit observation and that this matter will be corrected in the future.  | Controls should be introduced for timely reconciliation of accounting information and individual balance sheets.  |
| (d) | Although the fixed asset revaluation reserve was stated as Rs.825,362,289 in the financial statements, the amount of revaluation reserve related to each asset category had not been disclosed in an accounting note so that it could be identified separately.   | Agreeing with the query and action will be taken to correct by checking past records.   | Adequate disclosures should be made to ensure the reliability of financial information.   |
| (e) | Although the total balance of 03 letter of credit margin accounts opened in 2015 and 2019 was Rs.1,951,492 according to the balance confirmation letter of People's Bank dated 21 August 2023, it had been overstated by Rs.29,294,300 in the financial statements as Rs.31,245,792.  | That the difference has taken place due to not being entered into the computer system as not submitting all the settlements related to imported materials to the accounts department and that the action will be taken to correct them through journal entries as soon as the relevant reports are received by the accounts department. | This error should be corrected immediately and the monitoring process of the accounting department should be reviewed and formalized.   |

- (f) Income tax amounting to Rs.12,673,956 that has been provisioned for the assessment years from 2011/2012 to 2013/2014 had been paid to the Commissioner General of Inland Revenue in the years 2015, 2016 and 2017 and that payment had been debited to a fake asset account called "dividend tax" instead of debiting to the provisions for income tax account. In order to correct this mistake, instead of setting off the balance of the relevant fake asset account against the provisions for income tax account, the balance of the relevant fake asset account had been deducted from the balance of the provisions for income tax account shown in the income tax adjustment notes for each consecutive year from 2017 to the year under review.
- Agreeing to the audit observation and action will be taken for seeking the services of a tax consultant to make the necessary adjustments in the future.
- Arrangements should be made to obtain written confirmation that there is no income tax liability.
- (g) The total credit balance of 150 debtor accounts amounting to Rs.499,286 as on 31 December of the year under review and also a debit balance of Rs.273 in a creditor account was remained due to not them corrected or not recording correct receipts and payments in case of receipts or payments more than the specified value of a transaction and instead of settling those accounts, excess receipts from debtors had been shown under current liabilities and excess payments to creditors had been shown under current assets in the financial statements for many years.
- The debit balance of a creditor's account has been due to settlement exceeding the advance amount and it will be corrected in the accounting year 2023 and actions will be taken to further investigate the credit balance of the debtor.
- Control accounts should be maintained in respect of creditors and debtors and, receipts and payments should be accurately accounted. Timely comparisons and settlement controls should be established.

### 1.5.5 Unreconciled Control Accounts or Records

Subject	As per the Financial Statement (Rs.)	As per the corresponding reports (Rs.)	Difference (Rs.)	Comments of the Management	Recommendation
(i) Employee Loan Receivable	33,413,306	32,582,125	831,181	Agreeing to the audit observation and that this matter will be corrected in	Controls should be introduced for timely reconciliation of accounting

				the future.	information and individual balance sheets.
(ii) Loans recovered from employees during the year under review	19,629,951	19,379,951	250,000	- do -	- do -
(iii) Debtor Balance	148,120,041	145,290,977	2,829,064	The computer software system will be updated in the future to correct this situation.	Necessary corrections should be made after identifying the reasons for the difference by comparing the balances according to the financial statements with the balances as per age analysis.

### 1.5.6 Documentary Evidences not made available for Audit

Subject	Value (Rs.)	Unsubscribed Audit evidences	Comments of the Management	Recommendation
(i) Lands	636,000,000	Transferring Orders and Certificates of Title	That agreeing to audit observation. That this information should have been submitted since about 15 years and that the related documents and files will be submitted for audit after further examination.	Detailed information including source documents and ledger accounts regarding the assets, liabilities, capital and reserves shown in the statement of financial position should be properly maintained.

(ii) General Expense Advances	5,006,437	Related schedules	- do -	- do -
(iv) 10 percent retention on Letters of Credit	1,894,902	Related schedules	- do -	- do -
(v) Tender Security Deposits	15,076,310	Depository documents, schedules and age analysis	- do -	- do -

## 1.6. Receivable and Payable Accounts

### 1.6.1. Receivable Amounts

#### Audit Observation

Balance confirmation letters had been sent only to 83 debtors with a balance amounting to Rs.122,112,233 out of 103 debtor balances amounting to Rs.148,120,041 as 31 on December 2022. The 64 balances amounting to Rs.76,049,448 out of that had not been confirmed. The 12 debtors amounting to Rs.4,774,576 out of 19 debtor balances amounting to Rs.46,970,144 who has replied had stated that, they did not have money to pay. In respect of 05 more debtors, the book value is Rs.41,316,793 and the balance confirmed by those debtors was Rs.25,519,958. Accordingly 91 debtor balances amounting to Rs.119,101,188 had not been confirmed through balance confirmations.

#### Comments of the Management Recommendation

That the non-receipt of replies to the balance confirmation letters is an uncontrollable situation and that if there is a difference between the balance confirmation value and the book value, they will be identified and further action will be taken. A formal verification on the accuracy of debtor balances and debt recovery should be done and the results should be submitted for audit.

### 1.6.2. Payable Amounts

#### Audit Observation

Balance confirmation letters had been sent only in respect of 61 balances amounting to Rs.117,875,459 out of 116 creditor balances amounting to Rs.149,673,300 as on 31 December 2022. The 03 creditors amounting to Rs.469,998 out of 10 creditor balance of Rs.31,932,249 had declared that there is no money to collect. Although the book value of 02 other creditors is Rs.262,098, the confirmed balance was Rs.103,188. Although the book value for one creditor is Rs.426,750, it had been confirmed that the figure is Rs.436,500 and 04 creditors had agreed with the balances.

#### Comments of the Management Recommendation

That the accounts department does not maintain detailed information regarding the creditors and it is done through the computer package and that non-reply to the balance confirmation letters is a process beyond the control of A formal verification on the accuracy of debtor balances and debt recovery should be done and the results should be submitted for audit.

Accordingly, the loan balances of 106 creditors amounting to Rs.118,058,608 had not been confirmed by the balance confirmations. the accounts department.

### 1.6.3. Advances

#### Audit Observation

Although the staff officer who received “ad hoc” Sub-Imprest should settle the imprest as per the Financial Regulations 371 (2) and (5) and Public Finance Circular No.03/2015 dated 14 July 2015 immediately after the completion of the work or within 10 days after completion of the work, there was a delay of between 05 days and 134 days beyond 10 days after completion of work to settle 21 “ad hoc” Sub-Imprest of Rs.579,900 which had been obtained by 09 officers. Further, although the return of the imprest should have been made on or before 31 December of the financial year in which the imprest was issued, the “ad hoc” Sub-Imprest of Rs.169,408 received by 10 officers during the year under review and petty cash advances of Rs.76,530 issued to 12 petty cash custodians had not been settled by 31 December 2022.

#### Comments of the Management

That the officers who received the advances have been informed in writing to settle the outstanding advances and all the staff officers have been informed about the matters pointed out by the query.

It should be act as per the Financial Regulation.

### 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc

#### Reference to Laws, Rules and Regulations

(a) National Audit Act No.19 of 2018

(i) Section 18(4)

According to Section 18(2) of the Act, although the audit fees determined by the relevant institution should be settled within 30 days from the date mentioned in the invoice, the audit fees totalling Rs.4,836,000 from the year 2019 to 2021 had not been settled by 30 September 2023 as per the said provision.

#### Comments of the Management

That audit fees have been paid in instalments until 2018. That the audit fees from 2019 to 2021 will also be paid in instalments and that the financial situation of the corporation will be taken into consideration and that these payments will be made promptly in the future.

The provisions of the Act should be followed.

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| (ii)Section 38(I)(e)          | The accounting officer should ensure that all audit queries are answered within the specified time limits as required by the Auditor General. Even though, 24 audit queries related to the accounting years 2019, 2020, 2021 and 2022 have not been answered by 30 October 2023.  | That the audit observation is correct and that the remaining audit queries will be answered before 30 November 2023.   | The provisions of the Act should be followed. |
| (iii)Sections 39(1) and 39(2) | Although the proposed remedial measures or the measures taken into account and the reasons for implementation or impossibility if any should be informed to the Auditor General, Secretary to the Treasury and the relevant Minister regarding the matters mentioned in the detailed Auditor General's report submitted in terms of Section 13(7)(A) of the Finance Act No.38 of 1971 within 03 months from the date of the said report, the necessary actions regarding the detailed reports of the Auditor General for the years 2020 and 2021 had not been taken by 31 October 2023 according to that provision. | The detailed reports of the Auditor General for the year 2020 and 2021 have been forwarded to the officers for taking relevant actions and that they have been submitted to the Board of Directors and attention has been given to them and that the actions taken will be forwarded to the Auditor General, Secretary to the Treasury and the Minister. | The provisions of the Act should be followed. |
- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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| (i) Financial Regulation 103, 104 and 105 | It had not been dealt with expired and unusable stock at a total cost of Rs.12,885,943 and stock shortages at a total cost of Rs.9,459,348 as per Financial Regulations. Furthermore, it had not had not been dealt with total shortages of Rs.2,178,305 for the year 2019 of 08 sales centres and warehouses and excess of Rs.1,484,545 according to the decisions made in the Board of Directors meeting No.14,026 dated 01 November 2021.   | That a Deficiency and Redundancy Committee has been appointed and that the committee will make recommendations regarding deficiencies, redundancies and damages after obtaining the approval of the Board of Directors and implement the relevant recommendations. | Financial Regulations should be followed. |
| (ii) Financial Regulation 395(c)          | Although a bank reconciliation statement should be prepared before the 15 <sup>th</sup> day of the following month regarding the transaction status of each month, the arrangements had not been made regarding 04 current bank accounts.  | That due to late receipt of source documents, transactions are delayed and bank reconciliation statements are also delayed and these problems can be avoided once the new computer package which is currently being procured is available.                         | Financial Regulations should be followed. |
| (iii) Financial Regulation 756 (6)        | According to the stock verification reports of the year under review, although there was a shortage of 9,966 units of finished stock amounting to Rs.1,223,002 in 13 outlets and a surplus of Rs.251,821 in 813 units of finished stock and, a shortage of Rs. 8,236,346 of 60,433 stock units and surplus of 89,253 stock units amounting to Rs.4,784.698 in 06 raw material warehouses and in No.10, 24, 08, 13 warehouses, the necessary actions had not been taken as per the Financial Regulations. | The Shortages and Surplus Committee has been established and 02 committee terms have been completed by now and the final recommendation reports will be received promptly and further action will be done in this regard.  | Financial Regulation should be followed.  |

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|------|---|---|---|---|
| (iv) | Financial Regulations 880 and 881                               | Action had not been taken to deposit the guarantee amounting to Rs.40,000 by the 02 officers who were supposed to post guarantee. Also, although the officers who sign the cheques, certifying the vouchers related to the government account also required to post a guarantee, the necessary actions had not been taken to post the guarantee according to the said provisions. | That all the cashiers and officers in charge of the corporation who are required to deposit the guarantee have already deposited the guarantee and that further action will be taken regarding the guarantee of the officers who sign the cheques, certifying the vouchers related to the government account.   | Financial Regulation should be followed.                                |
| (c)  | Public Enterprises Circular No. 95 dated 14 June 1994           | Rs.611,071,569 of incentives had been paid in last 08 years including total of Rs.64,930,055 as Rs.20,917,337 of production incentives, Rs.9,897,950 of attendance allowances, Rs.34,114,768 of productivity allowances in the year under review without the approval of the Treasury.  | That an incentive scheme approved by the board of directors of the corporation is in operation. That although it has been submitted to the Department of Public Enterprises with the recommendations of the Ministry to get approval for it, the approval has not been received so far and, it is not possible to suspend an employee motivation system that has been in place for a long time to achieve production targets. | Incentives should be paid only on a formally approved incentive scheme. |
| (d)  | 3(X) of National Budget Circular No.03/2022 dated 26 April 2022 | Although loan facilities given to staff officers under the advance accounts of government officers should be suspended until the end of the year 2022, a total of Rs.1,000,000 had been given to 04 staff officers in the year under review contrary to the said provisions.  | The full amount was recovered due to the resignation of an officer and instalments are being recovered from other officers and attention will be paid to the circulars in the future.   | It should be complied with the provisions of the Circular.              |

- (e) Paragraph 2.12 of Public Enterprises Circular No.04/2022 dated 08 August 2022
- By setting up a high-level management committee to introduce effective control over expenditure and their recommendations such as reducing wastage and inefficiency and approaches to improve operational efficiency by reducing overhead costs, innovative approaches to improve business returns and foreign exchange earnings as applicable, suggestions for effective utilization of human resources and simple IT solutions to reduce operational and overhead costs should be reported to the Board of Directors at the end of every month. They. Nevertheless it was observed that the necessary actions had not been taken as per the provisions.
- That in order to effectively control the expenses, attention was given to it in the meeting of the Heads of Departments and instructions were given. That expenditure related information has been arranged to be presented at every board meeting. That the actions have been made to introduce new products and new packaging, improve sales and use IT methods for sales.
- It should be complied with the provisions of the Circular.

## **2. Financial Review**

### **2.1 Financial Results**

The operating result of the year under review was a surplus of Rs.1.01 million and correspondingly the deficit of the previous year was Rs.17.73 million. Accordingly, a growth of Rs.18.74 million was observed in the financial result. This growth was mainly due to the increase in sales income by Rs.135.67 million over the previous year due to the price increase and the increase in financial income on fixed deposits by Rs.13.92 million due to the increase in the interest rate.

### **2.2 Trend Analysis of Major Revenue and Expenditure Objects**

Although the sales revenue had increased by 16.95 percent compared to the previous year, the cost of sales had also been increased by 14.89 percent. Although other incomes had been increased by Rs.8.75 million, it was observed that there was a loss of Rs.15.34 million from operational activities due to the increase in organizational and administrative expenses by Rs.32.01 million and sales and distribution expenses by Rs.19.90 million.

### **2.3 Ratio Analysis**

The gross profit ratio and the net profit ratio had been grown by 1.29 percent and 2.22 percent respectively compared to the previous year.

**3. Operational Review**  
**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Reccommendation</b>
<p>(a) Even it is possible to increase the productivity of the organization by implementing an incentive calculated on the increase in the quantity of related production units by placing a weight on the type of drugs produced for the employees who directly contribute to the production activities, instead of such a system, employees in all divisions of the corporation had been paid between the amount Rs.02 million and Rs.07 million monthly as production incentives based on the monthly cost of production increasing over Rs.15 million. This incentive expenditure which was Rs.52,781,881 in the last year had increased up to Rs.64,930,055 in the year under review by 23 percent and the payment of the production incentive had to be increased even though the profitability of the corporation decreased when the cost of production increased.</p>	<p>That an incentive procedure calculated based on the amount of production units is currently in operation. In order to minimize the impact of the same in case of rising cost of production, payments are currently made on the basis of production costs in the year 2021.</p>	<p>Instead of evaluating divisions with different performances accordingly, it is inappropriate to evaluate all divisions based on the production cost applied to the employees who directly contribute to production activities and steps should be taken to introduce an incentive calculated on the increase of the relevant production units only to the production division and an incentive calculated on other performances to other divisions and actions should be taken to increase the productivity of the organization.</p>
<p>(b) It was observed that, the warehouses had not been properly stocked and maximum, minimum and reorder and economic stock levels had not been maintained, that bin cards and stock ledgers had not been used properly, even the slow moving stock was present, the items were not identified and sales promotion tactics were not used, that the drugs which had been withdrawn from sale due to the increase in the price of drugs, blurring of labels and packaging etc. were stored together with expired drugs, that the stock had been allowed to expire without taking necessary actions to relabel it and sell it, that the expired unusable drugs in the sales centres and warehouses had been counted as normal stock without removing them from the stock books for a long time, and that there was a possibility of</p>	<p>It is very difficult to maintain bin cards nowadays. That the instructions have been given to maintain up-to-date stock ledgers in the sales centres. As currently there are 03 years of damaged stock, steps will be taken to destroy it as soon as possible and to keep it up-to-date in the future. That the damaged stocks of 2022 and 2023 have to be stored in the same place due to insufficient space in the warehouse.</p>	<p>Warehouses and stock administration should be formalized.</p>

irregularities due to non-transportation of expired unusable drugs which had in the sales centres to central warehouses and large amount of space in the sales centres was underutilized.

That drugs removed from sale due to reasons such as blurring of labels and packaging will be sent back to the manufacturing plant and made reusable and that the steps have been taken to prepare maximum, minimum and reorder and economic stock levels and prepare production plans from October 2023.

### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Reccommendation
<p>(a) The total sales revenue estimate of the Corporation for the year under review is Rs.970,000,000 and actual income was Rs.935,892,860. Out of that, RS.681,103,129 or 73 percent was received from the public sector and the income received from the private sector was Rs.254,789,731 or 27 percent. Accordingly the revenue target of Rs.49,809,990 or 16 percent from the Rs.305,000,000 of private sector estimate in the year under review had failed to achieve. The greater inherent orientation towards public sector demand, failure to properly identify market needs, lack of use of new advertising and marketing promotion strategies, and lack of adequacy had led to a decline in sales revenue in the private sector.</p>	<p>That the reports to base the cost of production for preparing the selling price have been provided by the Costing Division on each occasion. That advertising and sales promotion programs are being carried out to increase the sales of the private sector and that the sales agencies are being re-established and the selection of suitable persons for export activities is being carried out from the year 2023.</p>	<p>Actions should be taken to increase the sales revenue of the private sector.</p>
<p>(b) The corporation had not conducted a timely market survey to determine its market share and there was no understanding of whether the market share of the corporation had decreased or increased among competing firms.</p>	<p>The marketing division of the corporation has conducted market surveys of each sales centre and observation has been done regarding the products, prices and</p>	<p>A market survey should be conducted to determine the market share of the corporation, to develop it as well as to identify market trends to satisfy new</p>

marketing strategies of the competing organizations and discussed them in the meetings of the marketing division and that is planned to be given to a recognized professional institute for carrying out surveys on the market share, customer opinions and existing opportunities of the corporation.

- (c) According to the annual production plan that was prepared for the year under review, although the planned annual production of drugs from medicinal liquids such as Arishta, Asawa, Oil, Kwatha, Syrup etc. was 627,712 litters and the planned annual drug production of medicinal substances including Choorna, Gugul, Kalka, Lepa, Leha, Modaka, Rasa, Wati was 151,179kg, the actual production was 389,750 litters in liquid and 70,799kg of material respectively. Accordingly the expected annual production by 237,962 litters of liquids i.e. by 38 percent and by 80,380 kg of material i.e. 53 percent respectively could not be achieved. Also, the reasons such as, unable to complete the 694 jobs i.e. 33 percent due to the actual number of completed jobs was 1441 although 2135 production jobs were planned for 12 products in the year under review, 88 jobs i.e. 41 percent due to the actual completed jobs were 127 although 215 production jobs were planned for 04 new products in the main production plant, 805 jobs i.e. 66 percent due to the actual completed jobs were 423 although 1228 production jobs were planned for 12 new products in the new factory had been led to not reaching the desired production targets.
- That although the annual planned production in the year 2022 is Rs.683,458,641 according to the factory cost price, the actual annual production is Rs.495,531,635, Accordingly, even though a decrease of Rs.187,927,006 has been shown in the annual planned production, that it was possible to reach a target of 72.5 percent of the annual planned production. In view of the crisis situation in the year 2022, many limiting factors such as rising production costs, shortage of raw materials, transportation problems, working capital problems, employee arrival etc. have mainly affected this.
- Production plans for the coming year should be prepared by taking into account the capacity and the available resources of the previous years and sufficient performance growth should be maintained to achieve the relevant production targets.

- (d) Performance indicators were not established to evaluate the functions of the processes of the various departments of the corporation which operates according to the production plan and marketing plan prepared by the corporation and the performance of those functions had not been reviewed. That the performance indicators will be set up for each division and the performance evaluation will be done in the future. Performance indicators should be established to evaluate the performance of the processes in each division of the corporation and the performance of those functions should be reviewed.
- (e) Action had not been taken to achieve the objectives of, to maintain dairy farms to obtain pure cow's milk for produce pure Elagithel for the production of Ayurvedic drugs, to raising bees for honey production for the production of drugs and for developing bee keeping as a cottage industry among the 07 objectives of the corporation according to the announcement in Extraordinary Gazette Notification No.14853/3 dated 11 May 1969. That the current board of directors has given special attention to this objective and that it is intended to run the herds through the corporation or as joint ventures. That action is being done to establish 20 bee colonies in the Nikaveratiya herbal garden and to establish 30 bee colonies jointly with Navodya Friends Forum in Warakapola Divisional Secretariat of Kegalle District. Arrangements should be made to fulfil the main objectives of the corporation or to revise the objectives in accordance with the practical conditions.
- (f) According to the action plan of the year 2022, although the financial allocations of Rs.1,800,000 have been allocated for the annual excursion, the approval has been given by the decision No.14143 of the board of directors held on 10 February 2022 to spend Rs.4,500,000 for the annual excursion in 2022 based on a false statement that, the allocations for the years 2020 and 2021 are also remained save. Nevertheless, Although good supervision and restraint should be maintained on the control of state expenditure despite having a loss of Rs.20,152,134 and a net loss of Rs.17,728,950 from operational activities in the year 2021, proper attention had not been paid to its negative impact in spending Rs.4,442,861 from the corporation's funds, which exceeded the allocation limit of 147 percent. Further, According to the evidence, although it was That the provision is made to the Human Resource Department for the annual excursion at every year in the budget. That it was not possible to organize the trip in 2020 and 2021 due to the Covid 19 pandemic situation in the country. Accordingly, the trip in the year 2022 was organized by applying the provisions allocated from the previous years' budget. Provisions made in the budget for the expenditure of a particular financial year cannot be used for future years. Taking into consideration the current situation of operating losses, good supervision and restraint and financial discipline should be maintained regarding the cost control. Formal investigation should be conducted and appropriate action should be taken to ensure that cash and material grant was not taken from the suppliers and that there was no irregularity or fraud.

confirmed that cash and material grant was obtained from the suppliers who provide drugs, goods and services to the corporation for this purpose, written evidence was not submitted to the audit to confirm that any of those cash was spent on the excursion or that there was no irregularity or fraud.

### 3.3 Underutilization of Funds

Audit Observation	Comments of the Management	Reccommendation
(a) Rs.30,921,906 or 41 percent from Rs.75,500,000 which has been received from Treasury as capital grants in the years 2018, 2020 and 2021 had been retained in a bank account without being utilized until 30 June 2023.	That the current balance of treasury provision is the provision given for the construction of the Rasa drugs warehouse and the provision given for the providing an electricity generator. That the discussions are being held with the relevant contractor regarding the construction of the Rasa warehouse and procurement activities are being carried out for the purchase of the electricity generator.	Only essential and leading projects that can contribute to the development of the country by fulfilling the objectives of the corporation should be planned and only the necessary allocations should be obtained from the treasury for the successful implementation of those plans. Action should be taken to re-review the projects related to pending capital grants and urgent work should be completed promptly.
(b) Although the State Ministry of Indigenous Medicine had given Rs.5 million for the provision, installation and operation of a new diesel generator in the year 2020, the amount had not been utilized for the purpose by 23 August 2023.	That although the procurement offer to buy a generator was made on two occasions in the years 2021 and 2022, the suppliers did not carry out the supply due to the foreign exchange problems arising during the pandemic and economic crisis. At present, that the procurement activities are being done to buy a generator with a capacity of 200KVA and the generator will be purchased before 31 December 2023.	Action should be taken to purchase the generator and relevant adjustments should be made in the accounts for the year 2023.

### 3.4 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
<p>The Corporation has issued drugs worth Rs.823,790 free of charge in 111 occasions, and their cost of Rs.605,600 had been shown under selling and distribution expenses as donations. Furthermore, according to the Board of Directors decision No. 13406 dated 08 July 2019, although the relevant officers should be charged for the donations of more than Rs.10,000 which have not received the approval of the Board of Directors except for the request of the minister in charge of the subject, necessary actions had not been taken in terms of Financial Regulation 156(i) regarding donations of Rs.681,680 that exceeded Rs.10,000 in 14 occasions last year.</p>	<p>That the activities are being carried out from the year 2023 according to Decision No.14192. That further action will be taken by referring a board paper again to act according to the decision of the board of director No.13406 dated 08 July 2019.</p>	<p>Manufactured drugs should not be released free of charge except for properly planned sales promotion programmes. The resources of the corporation should not be used for charity and donations based on the personal decisions of the officers. A proper system should be introduced and approved by the Board of Directors regarding the disposal of drugs by any means other than sale. Records and books should be maintained specifying the recommendations, approvals and supervision relating to such disposals.</p>

### 3.5 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) According to guidelines 4.2.1 and 4.2.2 of the Government Procurement Guidelines, a main procurement plan listing the expected procurement activities for a period of at least 03 years, and a procurement schedule that chronologically describes the steps of each procurement action from the beginning to the end of each procurement had not been prepared.</p>	<p>That a detailed procurement plan be prepared for the year 2023 as per the instructions of the Procurement Guidelines.</p>	<p>The guidelines of the Government Procurement Guidelines should be followed.</p>
<p>(b) The following observations are made regarding the procurement activities related to the import of 91,775 kilograms of 76 types of</p>		

Dry and Rasa drugs for 09 months and 107,287 kilograms of 06 types of oils and liquids for 06 months for the production activities of the year 2022.

- (i) As per guidelines 5.3.13 (b) of the Procurement Guidelines, although the asking for bid security deposit only by specifying a percentage of the bid price should be strongly discouraged, in above-mentioned procurement, the instructions in the bid documents indicate that a bid security of 05 percent of the total bid price should be deposited and therefore small-scale suppliers who could have offered to supply part or all of the 82 types at a relatively low price had been prevented from participating in the procurement.
- Although notices have been issued to place a bid security of 05 percent of the total bid value while calling the prices in view of the procurement decisions adopted in the year 2022 and based on precedents and act accordingly, the current procurement committee has decided to call for prices separately on several occasions depending on the product requirements and provision has also been made to obtain a bid security on the basis of supply value without specifying a percentage for bid security.
- Guidelines of the Procurement Guideline should be followed.
- (ii) Although the sealed quotation had been called from foreign suppliers, manufacturers or their authorized local agents through the procurement notice, prices of a local firm had been accepted contrary to that and without bid security. Although the standard bidding documents stated that foreign suppliers should quote in CIF price in USD and domestic suppliers in Sri Lanka Rupees (LKR) for supply price up to the corporation, the above-mentioned local entity had quote in USD for supply up to the corporation. Although the bid should be rejected because it is contrary to the facts specified in the tender documents, the tender had been awarded to that agency to import 35,157.5 kg of dry drugs and 36 types of oils and liquids worth USD 329,125.3 through an
- Although the 02 institutions that submitted the prices i.e. the local institution and the foreign institution had not submitted the bid security on the date of opening of the bids, that the relevant bid security was given to the Supply Division on 17 May 2022 when the Ayurvedic Drug Corporation started its work due to the protests and struggles in the country. That the Technical Evaluation Committee has converted the dollar value of the suppliers to the rupee value based on the value prevailing on 17 May 2022 for comparison of the final purchase price with the rupee value. Although the local suppliers have been given the opportunity to specify the drug value in rupees, the local supplier has presented it in dollars. Since the prices submitted to the procurement
- The procurement process should ensure transparency and regularity in the evaluation and selection process.

evaluation process that was conducted without a logical basis and transparency. Accordingly, it was observed that the transparency and regularity of the evaluation and selection procedure, which should be guaranteed by the procurement process, had not been confirmed and that the technical evaluation committee and the procurement committee had worked with special affection towards the above-mentioned local institution.

board held on 17 June 2022 were in two conditions, that the technical evaluation committee has been instructed to submit a correct technical evaluation committee report. That the Procurement Board has given its approval as per the revised Technical Evaluation Committee report.

- (c) The following observations are made regarding the procurement activities related to the establishment of an international medical zone so that the local people as well as foreigners can get treatment and drugs of their own accord by combining the traditional medical methods of Asian countries.

- (i) The Terms of Reference (TOR) had not been prepared in accordance with Guideline 3.3 of the Guidelines for the Selection and Employment of Consultants of the Democratic Socialist Republic of Sri Lanka in calling for quotations for the preparation of project design and estimates. Further, as per guideline 3.14.3, if the total cost of consultancy services does not exceed Rs.10 million, despite the possibility of awarding consultancy services to public institutions, the Chairman had awarded the contract subject to the payment of 05 percent of the total construction cost to an architect under the cover approval of the Procurement Board.

That the several discussions were held with the Urban Development Authority in the year 2021 regarding the attractive preparation of the Navinna Ayurvedic zone as an open zone for the public. That a request was made from the Urban Development Authority to prepare the plan and estimates. Since the work requested by us was delayed due to the situation of the COVID 19 pandemic and the various issues faced by the institution, that the contract was awarded to that institution to formally ask the service fees from the professional qualified institutions and individuals and prepare the plan and estimate.

The guidelines of the Guideline for the Selection and Employment of Government Consultants in the Democratic Socialist Republic of Sri Lanka should be followed.

- (ii) Although the standard documents for technical and financial proposals should be provided to clearly specify the conditions required for acceptance of the validity and responsiveness of any tender in the tender documents, only the tender notice were sent to the 11 consulting firms and bids were invited. Accordingly, 04 consulting firms had submitted bids and the bids had been evaluated according to 05 bid evaluation parameters decided by the technical assessment committee at its own discretion without communicating reasonable parameters and methods to the potential bidders for selecting the winning bid according to the guideline 6.2 of the said guidelines. Accordingly, the transparency and regularity of the evaluation and selection process, which should be ensured by the procurement process had not been confirmed.
- That the 04 quotations were submitted to the Technical Evaluation Committee after inviting service charges from 11 consultancy firms. That the information about the project works included in the concept paper was included in the relevant notice and that the organizations that inquired for more information were given the opportunity to carry out related information and on-site inspections.
- The procurement process should ensure transparency and regularity in the evaluation and selection process.
- (iii) Although Rs. 40 million from treasury allocations and Rs.60 million from the corporation were proposed to be borne out of the Rs.100 million of total project cost, the general treasury had not given approval and provision for the that and amount had not been allocated for the contribution of the corporation. Rs.02 million had paid to an irregularly employed designer against the guidelines of the Guidelines for the Selection and Employment of Government Consultants without preparing a total cost estimate for this project,
- Although the project report was prepared according to the project submission format to the National Planning Department and recommended by the State Ministry and forwarded to the Treasury for discussion, the relevant allocations has not been received. Although a capital budget proposal for the year 2023 has been submitted including the construction cost of Rs.100 million and other costs, that the approval or allocation has not been given and that this project has also been submitted under the capital budget proposal for the
- Appropriate action should be taken against the officers responsible for incurring expenditure without approval and provision.

which was not ready to start work year 2024.  
by 30 September 2023.

- (d) The following observations are made regarding the procurement process related to the appointment of Sales Representatives during the year under review for the distribution of Ayurvedic drugs manufactured by the Drug Corporation and for running the drug sales centres in major cities.
- (i) Instead of proceeding according to 3.2.2 (a) guidelines of the Government Procurement Guidelines regarding the notice related to this procurement which should be publicized nationally, the relevant applications were called only by posting notices on the corporation's website and Facebook account. That the calling for relevant applications was done by advertising on the corporation's website and Facebook page so that the cost is minimized since a limited group of sales representatives will be selected in the first phase. That the instructions given in Board Decision No.14226 have been carried out. Procurement guidelines should be followed.
- (ii) Although the dealers should deposit a bank guarantee of Rs.700,000 and a loan reserve fund of Rs.300,000 in a current account according to the Decision No.14226 dated 19 July 2022 of Board of Directors, the corporation had granted agency to 15 agents in the year under review contrary to those provisions. That there are cases where some dealers only present the loan security fund of Rs.300,000 and work in the agency. That only cash purchases are made in cases where the hedge fund limit is exceeded. However, since it is necessary to fully meet the conditions in order to achieve the target sales, the special attention will be paid to it. Procurement guidelines and contract agreements should not be violated.
- (iii) Due to 33 percent to 40 percent discount to private sector dealers for purchases above Rs.500,000 was given exceeding the discount limit added to the selling price for public sector, the profit margin of the corporation which was 25 percent had been reduced to 15 percent as 03 percent, 05 percent, Since district sales representatives will carry out all operations related to the transportation, distribution, promotion and sale of the company's products, that a discount percentage of up to 40 percent has been implemented. For the public sector and with a discount of more than 30 percent, Actions that harm the profitability of the corporation and the government's fund should be discouraged.

07 percent or 10 percent etc. Accordingly, the corporation had taken actions to give a price concession to private sales representatives that could have been given to the general consumer public and not to give that opportunity to government institutions.

the products will be transported to the respective hospitals and dispensaries. That the maximum discount percentage given to local and online sales representatives appointed in the year 2023 has been reduced to 27 percent.

(e) It was observed that there were cases where procurement was done in such a way as to benefit some suppliers by neglecting the standard and not paying enough attention to the standard in the purchase of drugs ingredient contrary to the 5.6.3 guideline of the government procurement guidelines.

(i) 100kg of mercury (impure) worth Rs.2,840,000 had been purchased in February of the year under review without obtaining laboratory test reports regarding the quality by referring to a recognized institution.

That this Corporation purchase mercury only on the basis of the recommendations of doctors. As laboratory testing related to mercury is a complex process, that the Corporation does not have relevant laboratory facilities for it.

It should be act in accordance with Guideline 5.6.3 of the Government Procurement Guidelines.

(ii) The 1500kg of honey for Rs.1,462,500, 15,036kg of Thala thel for Rs.3,784,500, 3,507 kg of Mee thel for Rs.2,810,475 had been purchased in the months of January, February and March of the year under review after getting a recommendation from an Ayurvedic doctor of the corporation after it was determined to be out of standard according to the laboratory test reports.

That the suppliers related to the purchase of bee honey and oils take samples and send the samples to the laboratory to get reports while submitting the prices and refer to the doctors to get the reports of the doctors taking into consideration other matters such as colour, smell etc. There are cases where laboratory reports and doctors' reports are not compared in relation to ingredients of liquid nature like bee honey and oils. In such cases, that there are cases where the two parties discuss and take into consideration the raw material quality and the existing raw material requirement for production activities and make the

The procurement process should ensure transparency and regularity in the evaluation and selection process.

relevant purchase on the recommendation of the doctors.

- (f) Advance totalling Rs.6,000,000 had been given to buy dry drugs apart from procurement activities on 06 occasions in the last year and the year under review by going to Dambana aborigines villages and nearby areas of Mahiyangana. Accordingly, advance vouchers of Rs.100,000 were prepared for between 05 and 12 officials at a time without written requests and cost estimates, and all the advance related to those vouchers was received by the cash assistant, and went with the chairman and some officers and cash purchases had been done from Dambana aborigines and another supplier in the area. Also, relevant advances had been settled by one journal voucher without the approval of a responsible officer and without each manager settling the advances separately.
- That the collected drugs by aborigines in Dambana and Magiyanganaya area was purchased under Board of Directors Decision No.13936. According to that, the relevant officers participated in the purchasing activities and because they had to make purchases from the aborigines of Dambana, had to give advances to several officers and the purchasing activities were done. Also, the advance amount approved later was given to the cashier and the project of purchasing herbal raw materials was implemented by obtaining cash in transits insurance related to that amount.
- The procurement of drugs should be done in accordance with the existing regulations and procurement guidelines regarding giving advances to the officers to prevent the possibility of fraud and mistakes.

### 3.6 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
<p>The project to build a Rasa medicines manufacturing plant with an estimated cost of Rs.45,725,759 in order to meet the Rasa medicine needs of patients and build a healthy society had been started on 25 August 2018 on a treasury provision of Rs.37,000,000. Even though 30 percent of the construction had been completed up to 02 January 2020 by spending Rs.12,144,400, the construction had been temporarily suspended since that day due to planning and supervision weaknesses. Even 05 years had been passed by 30 September 2023, the</p>	<p>It has been discussed with the State Engineering Corporation i.e. construction consulting firm regarding the revisions to be made in the design to minimize the cost and maximize the use of the building space for the construction of this Rasa warehouse and accordingly, this firm has submitted a revised plan and that the future work of the project will</p>	<p>The further work of the project should be started as soon as possible and action should be taken to complete the project.</p>

related construction had not been restarted. Accordingly, the expenditure for that project had become unprofitable and the cost of the contract had been increased by Rs.25,431,163 i.e. 75.89 percent up to Rs.58,940,280.

be done after discussing it with the construction contractor.

### 3.7 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
(a) Although the approved cadre of the Corporation as on 31 December 2022 is 375, as on that date, the actual cadre was 308 and therefore the number of vacancies was 67 equivalent to 18 percent of the approved cadre.	That there are currently 40 vacancies and further work is being done after obtaining the approval from the Ministry of Finance and the permission of the National Election Office to fill these vacancies.	The approved cadre and actual cadre of the corporation should be reviewed to match the present.
(b) In the year 2018, although the Department of Management Services had approved a revised recruitment procedure for the corporation under 09 service categories, all the officers who were recruited to the positions under that service category had been permanent in the service without conducting efficiency bar examinations as stated in the recruitment procedure. Furthermore, the necessary actions had not been taken to verify the qualifications through third parties and to issue a letter with a copy to the personal file stating that the service was permanent.	According to the approved recruitment procedure of the corporation, the efficiency bar examinations have been completed in the year 2023 for the posts of the primary service category and arrangements have been made to conduct the examinations for the management assistant service category and above by the end of November 2023. That the completion of efficiency bar examinations is taken into account while permanent the employees and verification of qualifications through third parties while confirming the service and issuance of permanent letters with a copy to the personal file has been started.	According to the relevant recruitment procedures, the efficiency bar examinations should be conducted properly and the qualifications should be verified through third parties during the permanent of the service and a letter should be issued with a copy to the personal file that the service has been permanent.

#### **4. Accountability and Good Governance**

##### **4.1 Presentation of Financial Statements**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Reccommendation</b>
(a) Although the annual financial statements and draft annual reports of public corporations should be submitted to the Auditor General within 60 days after the end of a financial year, according to section 6.6 of the Operations Manual for State owned Enterprises introduced in accordance with paragraph 03 of Public Enterprises Circular No.01/2021 dated 16 November 2021, it had taken 192 days to submit the financial statements and draft annual report for the year ended 31 December 2022.	The final accounts for the year 2022 were prepared and those accounts were presented to the Board of Directors and had to be revised on several occasions. That the annual report for the year ended 31 December 2022 has been drafted. That after receiving the annual audit report, further action will be done regarding the annual report.	The annual financial statements and draft annual reports of public corporations should be submitted to the Auditor General within 60 days after the end of a financial year.

##### **4.2 Annual Action Plan**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Reccommendation</b>
(a) Even though only 10 capital activities with treasury allocations of Rs.200 million were included under capital activities in the action plan of the year under review, above mentioned capital activities had not been carried out. Rs.63.20 million spent on capital activities from the corporation's fund and Rs.02 million given by the State Ministry of Indigenous medicine Promotion, Rural and Ayurvedi Hospital Development and Community Health for the development of Nikaveratiya and Ambanpola herb gardens had not been included in the action plan. Accordingly, only 19 had been implemented out of 36 planned programs and projects and, 17 of them i.e. 47 percent had not achieved sufficient physical progress.	That although the capital budget for the year 2022 was prepared and forwarded to the Ministry of Finance with the recommendation of the Ministry, the relevant allocations were not received. That the actions were taken to carry out essential capital activities by taking into consideration the existing allocation situation of the corporation and the priority of the works. That selected development works were carried out in Nikaveratiya and Ambanpola herbal gardens with Rs.2,000,000 of allocation received under the Ministry of Wildlife & Forest	The annual action plan should be prepared as realistically as possible and more attention should be paid to the progress of the activities included in it.

Resources Conservation. That the above allocations are additional allocations under a fast-track program and are not included in the Annual Action Plan.

- (b) Organizational structure of the organization, approved and existing cadre, the action plan prepared according to the budget priorities, time frame and expected deliverables had not been included to the developed activity plan for the year under review as per paragraphs 4 (a), (c) and (d) of the Public Finance Circular No. 01/2014 dated 17 February 2014.
- That the action plan will be prepared correctly in the future.
- It should be act as per the Provisions of the Circulars.

### 4.3 Budgetary control

Audit Observation	Comments of the Management	Reccommendation
<p>(a) The actual expenditure incurred had exceeded the estimated provision for recurrent expenditure in 11 expenditure objects in the year under review and it ranged from 23 percent to 161 percent. Also, the actual expenditure had exceeded the estimated provision of a capital expenditure subject and it was 61 percent. It was observed that the provision was estimated without proper realistic and prudent review since the actual expenditure being Rs.4,071,312 while the budget allocation for the new herbal plant was Rs.250,000. Accordingly, it was observed that the budget document was not used as an effective financial controller.</p>	<p>Budget reports are prepared after obtaining information from all departments and certain expenses are made based on the decisions taken by the management under the relevant approval considering the need in each case. Accordingly, the budget allocation has been exceeded.</p>	<p>The budget document should be used as an effective financial controller.</p>
<p>(b) Standardized code numbers and job descriptions were not used for the classification of income, expenses and capital expenditure while preparing the</p>	<p>Comments have not been made.</p>	<p>Standard code numbers and job descriptions should be used to account for income and expenses with accurate</p>

income estimate and expenditure estimate of the corporation.

classification.

#### 4.4 Sustainable Development Goals

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Reccommendation</b>
<p>Although every government agency has to work according to the United Nations 2030 "Agenda" of Sustainable Development, the corporation had not act with enough understanding on how to operate in terms of the tasks that fall under its scope in relation to the year under review. Accordingly, according to the United Nations 2030 agenda, the Sustainable Development Goals related to the corporation activities, goals and milestones to be reached and the indicators to measure the progress on the goals had not been identified.</p>	<p>According to the United Nations 2030 Agenda for Sustainable Development. No poverty. Zero Hunger. Good Health and well-being, Decent work Economic growth, Responsible Consumption and Production were taken into consideration in the preparation of the 2023-2027 Corporate Plan and in the preparation of the Action Plan.</p>	<p>Actions should be taken to identify targets, indicators and measure progress in relation to achieving Sustainable Development Goals.</p>