

Sri Lanka Ayurvedic Drugs Corporation - 2024

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 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy information, 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 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

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

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

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

In preparing the financial statements, management is responsible for assessing the 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 Audit Scope

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 the relevant standard	Management Comment	Recommendation
(a) Although, the grant of Rs. 15,000,000 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 to the open market should be accounted as income in accordance with paragraph 88 of Sri Lanka Accounting Standards 1, it had been shown as a current liability. Although, on the basis of a policy agreement, the amount of Rs. 3,266,586 paid to the Fund as 10 percent of the profit of each unit of the relevant 10 products sold from 2015 to the year under review should be shown as an expense in each year, it had been debited to the current liability account. No steps had been taken to correct the error even in the year under review.	Although, the audit had pointed out that the amount of Rs. 15 million provided by the Health Development Fund should be considered as a grant and recorded as income, it is not mentioned in any document that it is a grant. Further, inquiries will be made with the National Health Development Fund regarding this amount and the necessary steps will be taken in the future as per the approval of the management.	Actions should be taken according to standards.

- (b) The following matters had not been fulfilled in accordance with the provisions of Sri Lanka Accounting Standards 16.

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| <p>(i) Although, at the time of revaluation, the relevant class of assets should have been revalued as per paragraph 36 of the standard, out of 27 vehicles with a cost of Rs.41,010,767 in the year 2022, only 18 vehicles with a cost of Rs.37,573,800 had been revalued. Accordingly, due to the transfer of depreciation provision of Rs. 2,528,501 related to 09 non-revalued motor vehicles to the revaluation reserve account, the depreciation provision had been recorded less by that amount and the balance of the revaluation reserve account had been recorded more by that amount. No steps had been taken to correct the error even in the year under review.</p> | <p>That a portion of the motor vehicles belonging to our institution have not been revalued as per the decision of the management due to the fact that they are outside the premises of the institution and for other reasons, However, those motor vehicles have been accounted for as cost as of 01 January 2022 with the approval of the management, therefore, it is correct to transfer the depreciation provisions related to the 09 motor vehicles that have not been revalued but have been accounted for at cost, amounting to Rs.2,528,501, to the revaluation reserve account.</p> | <p>- Do-</p> |
| <p>(ii) Although, fully depreciated machineries, water supply equipments, laboratory equipments and 462 inventory items worth Rs.104,167,093 were still in use, the residual value and useful life of non-current assets had not been reviewed annually in accordance with paragraph 51 of the standard, estimated errors had not been identified and revised in accordance with Sri Lanka Accounting Standards No. 08.</p> | <p>It is stated that a review will be conducted regarding the residual value and useful life of these machines and equipments used in the institution, taking into account the costs to be incurred in the future valuation of these machines and equipment.</p> | <p>- Do-</p> |
| <p>(iii) Although, the Department of Ayurveda purchased 09 machines worth Rs. 20,980,575 and handed over to the Corporation in 2015, the said machines had not been valued and accounted. Out of the said 09 machines, only 05</p> | <p>09 machines purchased by the Bandaranaike Ayurveda Research Institute, which were not being used by that institution, were handed over to this Corporation on 18 June 2024. 05 of those machines have now been brought to the Corporation's</p> | <p>Necessary actions should be taken to assess and account for machinery to ensure the reliability of financial information.</p> |

	machines were in the Corporation premises and out of them, only the Pharmaceutical Grade Ro Water System machine was in use and 04 machines were idle till the date of audit, 12 June 2025.	production facility and 04 machines are still in the institution, and steps are being taken to account for all those machines.	
(iv)	Even though, Ayurveda Department had shown the land extent of hectare 0.773 utilized by the Department in the statement of financial position, the Corporation had valued the land at Rs. 366,000,000 in 2017 and recorded it as a non-financial asset, without taking ownership of that land.	Steps will be taken to write off the land and buildings account in 2025, with the approval of top management.	Actions should be taken according to standards.
(v)	Contrary to paragraph 55 of the Standard, the Corporation had not purchased the equipments required to connect the generator to the main circuit and had adjusted depreciation of Rs. 803,628 while the generator was in an unusable condition, resulting in an overstatement of depreciation provision for the year under review by that amount and an understatement of profit.	Relevant corrections will be made in the year 2025.	- Do-
(vi)	Although, the Medawachchiya Herbal Garden in hectare 2.2 was transferred to the Corporation by the Medawachchiya Divisional Secretary in the year 2022, the necessary steps had not been taken to assess and account for that land in the year under review.	It has been disclosed in the financial statements under Note No.04, Property, Plant and Equipment, regarding its use. Since this land has been transferred to the Corporation, steps will be taken to include it correctly in the financial statements in the coming year.	Necessary actions should be taken to assess and account for the land to ensure the reliability of financial information.
(c)	The amount of Rs. 30,000,000 payable for the ERP computer software system installed in the Corporation had not been accounted for as an intangible asset in accordance with paragraph 04 of Sri Lanka Accounting Standards 38, and the liabilities had also been understated by the same amount. In	That the software system has been prepared but not implemented, that steps will be taken to make the relevant accounting entries after the system is implemented, that no payment has been made to the software development company for the ERP software system so far, that	Actions should be taken according to standards.

accordance with paragraph 8 of the standard, amortization had not been made and the profit had been overstated by the same amount due to the understatement of the depreciation value of Rs. 1,000,000 for the year under review.

the relevant payments will be made after the system is implemented and steps will be taken thereafter to make the relevant accounting entries.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) The unit price and value columns in the finished stock ledgers of 05 warehouses and 16 drug stores located throughout the island had not been updated. Instead of comparing the cost value of the remaining stocks with the net realizable value in accordance with paragraphs 27 and 28 of the standard and using the lower value for the financial statements at the end of the year, the value of the remaining finished drug stock as of 31 December 2024 was calculated and accounted for as Rs. 262,641,057 based on the production cost of the year of manufacture.	After the new computer package is installed, the stock ledger can be maintained with unit prices and values, and preliminary steps are currently being taken to introduce a new computer package across all sales centers of the Corporation.	Measures should be taken to maintain stock ledger books in departments that do not have computers and adherence to standards is required.
(b) The number of book units was not recorded in the stock verification report of one sales center and 02 finished stock warehouses during the annual stock verification in the year 2024, and the verification board had not taken steps to identify deficiencies or surpluses of 658,593 units in relation to 460 stock items costing Rs. 225,241,813.	During the 2024 annual stock verification, the Galle Sales Center was temporarily closed, and the book unit quantity of the stock could not be included in the verification report due to the fact that the two finished stock warehouses (Warehouses 07 and 08) had not been consolidated into one warehouse. However, when valuing the finished stock as at 31 December 2024, the physical stock was calculated at cost. Furthermore, stock shortage and surplus reports related to the sales center have been prepared, and stock shortage and surplus reports related to the finished stock warehouse will be prepared in the future.	Actions should be taken according to standards.

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| (c) | When calculating the final finished drug stock value of 15 outlets and 02 warehouses, 18,189 stock units with a cost of Rs. 3,502,295 relating to 45 stock items had not been accounted. When calculating the final finished drug stock value of 03 outlets and one warehouse, 523 stock units with a cost of Rs. 76,499 relating to 05 stock items had been overstated, resulting in an understatement of the finished drug stock value of Rs. 3,425,795. | Adjustments will be made to the finished stocks in 2025, amounting to Rs. 3,425,795 related to the net effect of the undercounted stock value of Rs.3,502,295 and the overcounted value of Rs.76,499, in the calculation of finished drugs in these 15 outlets and 02 warehouses as at 31 December 2024. | -Do- |
| (d) | According to the stock and verification reports, when comparing the physically existing stock units, there was a shortage of 12,722 finished stock units worth Rs. 4,767,427 in respect of 09 outlets and 02 warehouses and a surplus of 18,571 finished stock units worth Rs. 3,550,449 in respect of 10 outlets and 02 warehouses. | Based on the stock verification reports, the accounts division will prepare stock shortage and surplus reports for all sales centers and warehouses of the institution and submit them for future work. | -Do- |
| (e) | Although, Rs. 14,908,104 had been allocated as provisions for damaged and expired stocks in warehouses and drug stores as at 31 December of the year under review, the actual value of the damaged and expired stocks was Rs.18,322,395, resulting in an under-provision of Rs. 3,414,291. | That the under-provision of Rs.3,414,291 relating to damaged and expired stocks in warehouses and sales centers as at 31 December 2024, will be adjusted to the accounts in the year 2025. | -Do- |
| (f) | When comparing the number of units physically present according to the stock and stock verification reports for 02 raw material warehouses and one stationery warehouse in the year under review, there was a shortage of 1,349 units in respect of 137 items, the value of which was Rs.1,605,816. Furthermore, there was a surplus of 9,700 units in respect of 03 raw material warehouses, the bottle warehouse and the stationery warehouse, the value of which was Rs. 3,582,635. | The Accounts Division will prepare and submit stock shortage and surplus reports for 07 warehouses in relation to the 2024 stock verification. | -Do- |

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| (g) | The inventory count included 593,032 units of 28 unusable items in the Bottles, Packaging and Stationery warehouse, with a value of Rs. 2,113,520. | The stock balance value of these warehouses included in the financial statements as at 31 December 2024 has been included based on the stock values included in the computer package. | -Do- |
| (h) | There was a shortage of 1,236 kilograms of raw materials worth Rs. 1,284,812 in respect of 98 items in Warehouse No. 01 and 02, and a surplus of 9,230 kilograms of raw materials worth Rs. 2,696,108 in respect of 126 items. Further, 1,958 kilograms of venivelgata had become unusable and had deteriorated due to unnecessary purchase and storage. | It is agreed with the audit query and when the Department of Conservation and the police seize and take over the corporation on court orders, the stock must be obtained along with the worn-out parts unsuitable for pharmaceutical production, that the unusable stock must be kept in the warehouse until it is removed, and that steps will be taken to inspect the stock that needs to be removed and take further action. | -Do- |
| (i) | According to the balance confirmation letter of the People's Bank, the total balance of 03 letter of credit margin accounts opened in the years 2015 and 2019 was Rs.1,951,492. However, it was shown in the financial statements as Rs.26,989,398, which was Rs. 25,037,906 more. The balance, which had been continuously carried forward in the financial statements since before the year 2022, had not been settled even in the year under review. | The Supply Division has not taken steps to submit the settlement documents related to the import of raw materials to the Accounts Division, and that further action will be taken after obtaining the relevant documents from the Supply Division. | The mistake should be corrected and steps must be taken to review and streamline the supervision process in the accounting department. |

1.5.3 Unreconciled Control Accounts or Records

	Subject	Value as per financial statements (Rs.)	Value as per corresponding records (Rs.)	Difference (Rs.)	Management Comment	Recommendation
(a)	Tender Deposit (Security)	25,867,571	13,167,073	12,700,498	This change has occurred because the security	Steps should be taken to introduce controls for timely

Deposit)					deposit balances reconciliation of prior to 2023 are accounting not in the security information and deposit register. list of individual balances.
(b)	Debtors	106,967,889	2,223,792	104,744,097	6 debtors have stated that they do not have a balance to pay, so the issues regarding these outstanding balances have been submitted to the sales department to resolve. The age analysis balances should be compared with the balances as per the financial statements, the reasons for the differences should be identified and necessary corrections should be made.

1.5.4 Documentary Evidences not made available for Audit

	Subject	Amount Rs.	Evidence available	not Management Comment	Recommendation
(a)	stock value of 09 gold plates weighing 772 grams	1,841,645	Relevant documents to verify availability	The gold reserves have not been secured to ensure their existence in 2024.	Arrangements should be made to confirm availability and submit relevant documents.
(b)	10 percent retention money related to letters of credit	1,894,902	Schedules	This balance has existed for many years and detailed information regarding this will be obtained from the supply department and relevant adjustments will be made.	Arrangements should be made to submit the relevant schedules.

(c)	Tender Security Deposit	25,867,571	Schedules, deposit slips and age analysis	A register will be established and maintained regarding tender security deposits from 2023, and further action will be taken after further investigation into detailed information regarding these tender deposits.	Arrangements should be made to submit relevant schedules, deposit slips and age analysis.
(d)	Deposits payable	1,041,015	Schedules, deposit slips and age analysis	No answers were submitted.	Steps should be taken to submit the relevant schedules, deposit slips and age analysis.
(e)	Capital reserve balance remained unchanged for 15 years	1,923,741	Relevant documents to verify	The accounts division does not have this information, and the necessary adjustments will be made regarding this balance in the future based on the instructions of higher management.	Corrections should be made before submitting the accounts for the year 2025.
(f)	Payment vouchers	11,082,007	Payment vouchers and source documents	These vouchers will be sought and presented in the future.	All payment vouchers should be submitted for audit without delay.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Issue	Management Comment	Recommendation
Although, an amount of Rs. 2,507,072 had been provided for bad debts, based on 17 debtor balances of Rs.2,510,687 which were outstanding for more than 05 years, formal and adequate measures had not been taken to recover the money due from those debtors.	It is stated that the relevant reports have been forwarded to the marketing division on a monthly basis to take action to recover the debt, and that further investigation will be carried out regarding the uncollectible balances in the future.	Formal and adequate measures should be taken to recover the money due from the debtor.

1.6.2 Advances

Audit Issue	Management Comment	Recommendation
(a) The entire amount to be paid to various institutions to obtain the goods and services required by the Corporation had been accounted for as advances and cheques had been issued. Although, the relevant goods had actually been received by the Corporation as at 31 December 2024, a balance of Rs. 14,174,725 remained in the advance account due to unsettlement of the relevant advances. This balance also included a balance of Rs. 8,362,165 which was not paid as at 01 January 2024. Accordingly, the creditors and general expenses advances of the previous year and the year under review had been overstated by Rs. 8,362,165 and Rs. 14,174,725 respectively.	The balance of general expense advances of Rs. 14,174,725 as at 31 December 2024 may include values accumulated due to cases where goods were not purchased by the end of 2024 even though cheque advances were received in the year 2024. Therefore, it cannot be said that the balance values of general expense advances are clearly overstated by creditors and general expense advances.	Controls should be introduced to ensure accurate accounting through the tracking process.
(b) The staff officer who received the interim advance should have settled the advance immediately after completing the work or within 10 days of completing the work, but there was a delay of between 10 and 96 days after completing the work for the resettlement of 40 interim advances totaling Rs. 1,014,950 received by 26 officers.	Based on practical considerations, our institution's current practice is that settlements should be made within one month from the date of receipt of interim advances, and that officers who have received advances in respect of interim advances that exceed one month will be informed in writing and that further steps will be taken to recover the unsettled advances from the salary with a surcharge of 10 percent, and that steps have been taken to recover these advances by issuing documents for the recovery of unsettled advances, and that all these advances have been settled in the year 2025.	Actions should be taken in accordance with financial regulations and relevant circulars.

1.6.3 Non-disclosure of Related Parties and Related Party Transactions

Audit Issue	Management Comment	Recommendation
(a) The former Managing Director of the Corporation had provided false service certificates to two applicants who applied for two management positions, stating that they had worked in two companies owned by him, and had also acted as a member of the relevant interview board and participated in the board meeting to make the relevant decisions, thereby selecting these applicants who did not have the necessary work experience.	It is agreed with the audit report. The audit query was submitted to the Audit and Management Committee of this Corporation and its recommendations were submitted to the Board of Directors, and that steps were taken to terminate the service of the two officers recruited to the above positions as per the decision of the Board of Directors and to file a complaint with the Nugegoda Special Crime Investigation Bureau against their submission of forged/false documents, and that since there is a conflict of interest between the parties through the issuance of false certificates by a company owned by the former Managing Director, Mr. P.L.G.S. Kanchana, his acts at the interview board and at the Board of Directors, steps were also taken to file a complaint with the Commission to Investigate Allegations on Bribery and Corruption as per the recommendations of the Audit Committee and the decisions of the Board of Directors.	An institutional investigation should be conducted and necessary action should be taken, and the necessary support should be provided for the investigation activities of the Special Criminal Investigation Bureau.
(b) It was confirmed that there was a conflict of interest between a company that was a supplier to the Corporation and the former Managing Director of the Corporation. This company, which was a nominal company, had colluded to supply plastic bottles to the Corporation using its name. The Corporation had	It is agreed with the audit report that there is a conflict of interest between Ceylon Nature Ayurveda (Private) Ltd., a registered supplier of this corporation, and the former Managing Director, Mr. P.L.G.S. Kanchana. The audit query was submitted to the Audit and Management	- Do-

purchased materials worth Rs.10,891,681 and Rs. 23,227,843 from this nominal company in the years 2023 and 2024 respectively. When this company, which was not a registered supplier, was selected as the supplier for the supply of plastic bottles to the Corporation, the Managing Director had also participated as a member in the relevant procurement committees.

Committee and its recommendations were submitted to the Board of Directors. Accordingly, as per the decision of the Board of Directors, a complaint was filed with the Commission to Investigate Allegations on Bribery and Corruption against a former Managing Director and the payments made to the relevant company have now been suspended and the matter has been referred to the Chief Legal Officer of the Ministry of Health and Mass Media for advice regarding the making of those payments.

- (c) Due to the purchase of substandard plastic bottles, 1,907 bottles of 105 ml Aloe Vera Shampoo and 395 bottles of 95ml Aloe Vera Shampoo, respectively, costing Rs. 951,805, and 95 bottles of 210 ml Veniwell Body Wash and 210 ml Panchawalkala Body Wash, respectively, were rendered unusable due to quality defects such as shampoo leaking from the cap and the support provided to receive the liquid being lifted up. Although 8,000 units of these substandard plastic bottles were in the warehouse, no steps had been taken to provide them to the supplier.
- It is agreed with the audit report that these bottles were manufactured and purchased from Ceylon Nature Ayurveda (Private) Company using the mold provided by this corporation, and that problems arose due to manufacturing defects in the bottle caps, that the situation was reported to the relevant company, and that corrections were made on several occasions and they were used, that at present those bottles are not being used and further steps are being taken to investigate the possibility of sending the remaining stocks back to the supplier.
- A full investigation should be conducted and action taken accordingly.

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

Referring to laws, rules, regulations, etc.	Non-compliance	Management Comment	Recommendation
(a) National Audit Act, No. 19 of 2018			
(i) Paragraph 6.6 of Chapter 6 of the State Enterprise Operations Manual introduced in terms of Sub-section 16(2) and Paragraph 03 of State Enterprise Circular No. 01/2021 of 16 November 2021	Although, the annual financial statements and draft annual reports were required to be submitted to the Auditor General within 60 days of the end of a financial year, 105 days had elapsed since the due date for submitting the financial statements for the year under review and the draft annual report had not been submitted even by 21 August 2025.	The Corporation's computer data system has been modified and that work has been underway to examine the data system and payment vouchers since February 2025 to uncover financial fraud committed through cheques, and that the submission of the financial report has been delayed due to this.	Action should be taken in accordance with the provisions of the Act and circulars.
(ii) Sub-section 38(1) (c), Sub-section 38(2) and Management Audit Circular No. DMA-02/2022 of 29 July 2022	It was necessary to ensure that an effective internal control system for financial control was established and maintained, and that the effectiveness of that system should be reviewed and necessary changes should be made accordingly to ensure that the system is operated effectively, and that the review to be performed should be done in writing and copies thereof should be provided to the Auditor General. However, action had not been taken accordingly. Due to the lack of proper internal controls in relation to financial control, a financial fraud of Rs.16,915,307 and Rs.14,209,392 had been occurred in the years 2024 and 2025 respectively.	The necessary changes have been reviewed and necessary internal controls regarding financial control have been established, and work is underway to install a new ERP system to replace the current computer data system installed around 2006. .	-Do-

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulations 110	Although, the losses and damages register was prepared, it was not prepared in accordance with the prescribed format and not updated during the year under review.	Action will be taken to prepare the losses and damages register according to the prescribed format and to correctly enter the value of the damage to a motor vehicle worth Rs. 38,000.	Financial regulations must be followed.
(ii) Financial Regulations 166	Due to the failure to keep up-to-date the relevant documents received with the cash and the failure to keep proper records, steps had not been taken to settle the cash deposit balances worth Rs. 21,109,827 in 04 bank accounts between the years 01 and 05 which could not be identified.	The depositor has not been identified precisely due to the fact that information relating to payments made directly to the bank by customers has not been provided to the marketing division or the accounts division. Relevant information will be obtained from the bank and take further action.	- Do-
(iii) Finance Regulations 395(c)	Although, a bank reconciliation statement should be prepared before the 15th of the following month regarding the transaction status of each month, the same had not been done in accordance with the provisions regarding current accounts of 05 banks.	The corporation's bank reconciliation is carried out through computer software and for this, data related to all bank transactions must be updated. There are cases where bank reconciliations are not prepared on time due to delays in receiving relevant information/source documents. These problems will be overcome after the new ERP system is installed.	- Do-

1.6.5 Finance Management

Audit Issue	Management Comment	Recommendation
A balance of Rs. 895,000 in the Bank of Ceylon current account has been lying dormant since April 2023 and no written evidence was submitted to the audit during the	The Bank of Ceylon account has been opened in accordance with the decisions and instructions of the Board of Directors, and the need to continue maintaining this	In conducting the day-to-day operations of the corporation, efforts should be made to manage cash flows

year under review regarding the purpose of maintaining this current account. account will be reviewed and necessary steps will be taken in the future. rationally and prudently.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 182.92 million, and the corresponding surplus in the preceding year amounted to Rs. 218.08 million. Therefore, a deterioration amounting to Rs. 35.16 million of the financial result was observed. The reasons for the deterioration were the increase in cost of sales in line with sales revenue, increase in general and administrative expenses, and increase in selling and distribution expenses.

2.2 Trend Analysis of Major Income and Expenditure Items

Although, the sales revenue in the year under review had increased by 25.05 percent compared to the previous year, a surplus of Rs. 182.92 million was achieved from operating activities due to an increase in sales costs by 41.87 percent and institutional and administrative expenses by Rs. 16.35 million.

2.3 Ratio Analysis

The gross profit ratio for the year under review decreased by 2.64 percent and the net profit ratio decreased by 16.12 percent compared to the previous year .

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Corporation had continuously paid an amount of Rs. 02 million to Rs. 06 million as production incentives to employees of all divisions of the Corporation based on the monthly production cost exceeding Rs. 15 million without formal approval. This incentive expenditure, which was Rs. 82,453,412 in the previous year, was Rs. 65,985,733 in the year under review. However, many products produced without properly identifying the need are subject to expiry in the warehouse itself or in the outlets and the value of such expired and damaged stocks in the years 2022 and 2023 was	A production incentive scheme has been in operation for a long time with the approval of the Board of Directors of this corporation and the said incentive is paid to the entire staff. Although, a new employee incentive scheme has been drafted and forwarded to the Treasury with the recommendation of the Ministry, the approval has not been given so far. The monthly production value used in the payment of this production incentive is 2021.The incentive	Instead of evaluating divisions with different performance levels accordingly, it is inappropriate to evaluate all divisions based on the production costs incurred by employees who directly contribute to production activities. Steps should be taken to increase the productivity of the organization by introducing an incentive allowance calculated based on increases in the

<p>Rs. 12,885,943 and Rs. 6,996,583 respectively. The value of products returned to the warehouse due to quality defects in the years 2023 and 2024 was Rs. 2,573,644. Accordingly, during the payment of production incentives, steps had been taken to pay incentives for quality defects and expired products that could not generate income for the Corporation.</p>	<p>payments will be calculated based on the production costs prevailing during the year.</p>	<p>relevant production units only for the production divisions and an incentive allowance calculated based on other performance levels for other divisions.</p>
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3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) In accordance with the notification mentioned in the Government of Sri Lanka Extraordinary Gazette No. 14,853/3 dated 11 May 1969, out of the 07 objectives of the Corporation, the following had not been taken up: to maintain dairy farms to obtain pure cow's milk for the production of pure gee oil required for the production of Ayurvedic medicines, to raise bees for the production of honey required for the preparation of medicines, and to develop beekeeping as a home industry.	Although, discussions have been held on several occasions regarding the production of gee oil for the production of medicines, the maintenance of cowsheds to obtain cow milk, and the raising of bees to obtain honey as a home industry, which are included in the corporate objectives of this corporation, the project has not been initiated.	Action should be taken to achieve the main objectives of the corporation or to revise the objectives to suit practical circumstances.
(b) Although, it was planned to produce 1,505,478 units of products in relation to 13 products according to the annual production plan for the year under review, the actual number of units completed was 527,249, leaving 978,229 units, or 65 percent, uncompleted.	The number of planned workshops for the year 2024 was 3007, the actual number of completed workshops was 1672, and although, the target production could not be achieved due to reasons such as shortage of timely raw materials and supply disruptions due to fluctuations in raw material prices, the total production value in the year 2024 was achieved at an optimal level of Rs.606.347 million.	Work should be done to achieve production goals.

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| (c) | <p>Performance indicators had not been established to evaluate the performance of the various departments of the Corporation, which were carrying out activities in accordance with the production and marketing plan prepared by the Corporation, and the performance of those functions had not been reviewed.</p> | <p>It is agreed with the audit report, that the annual production plan and marketing plan are prepared, and that operational activities are carried out and progress is reviewed accordingly. Although, a monthly progress review report is presented to the Board of Directors meeting, steps have not been taken to establish performance indicators to evaluate the performance of sectoral activities and review those activities. Special attention will be paid to this matter when preparing the corporate plan and action plan for the period 2026-2030.</p> | <p>Performance indicators should be established to evaluate the performance of each division and function of the corporation and the performance of those functions should be reviewed.</p> |
| (d) | <p>The total sales revenue of the Corporation was estimated at Rs. 1,862,515,000 and the actual revenue was Rs. 1,519,775,447. 81 per cent of the actual revenue was received from the public sector and 19 per cent from the private sector. Compared to the previous year, the sales revenue of the private sector had decreased from 26 per cent to 19 percent. Failure to properly identify market needs, increase in sales prices compared to the market price, and failure to use new advertising and marketing promotion strategies had led to a decrease in sales revenue and the Corporation had earned illegal income by selling to the public sector at a higher sales price compared to the market price. Furthermore, the audit observed that the public sector purchases medicines directly from the corporation only, without inviting quotations, contrary to the</p> | <p>Digital marketing methods have been initiated in 2024 in a manner suitable for the new market, that there is a situation that needs to be considered regarding continuity as the share of the public sector in the total sales revenue exceeds 75 percent, that the Ayurvedic medicines and herbal products produced by this corporation are manufactured according to the relevant recipes using all the medicinal ingredients to the proper standard under the supervision and quality control of doctors, that the prices of institutions that maintain competitive high standards are at the same level when compared to our prices. However, the prices of some institutions in the market are low and their quality cannot be guaranteed, observation that the corporation has earned</p> | <p>To increase sales revenue in the private and public sectors, efforts should be made to properly identify market needs and use new advertising and sales promotion strategies.</p> |

government procurement undue profit by selling at guidelines. However, the going relatively high prices is concern may cease to exist rejected. However, efforts are depending on future events or being made to increase sales in circumstances. the public and private sectors and diversify products by targeting the entire market.

- (e) Although, the production process should be started after the initial sample production and obtaining a quality certificate regarding its quality to introduce a new product to the market, the Sandalwood Face Wash produced without quality testing was defective, resulting in 4,504 in 100 ml bottles and 424 in 50 ml bottles costing Rs. 984,045, which were unusable. Since the Corporation did not have a methodology to resolve the defects, it had taken steps to stop this production. However, the necessary steps had not been taken to identify the parties responsible for the loss incurred by the Corporation due to this product.
- We agree with the data contained herein, that some of the defects in these white sandalwood products have been resolved, and that a technical committee has been formed in collaboration with the Ayurveda Research Institute of ITI, corporate doctors, and the Quality Control Manager of the Research and Development Division to ensure that such situations do not recur and to introduce strong new products to the market, and that further work is currently being carried out.
- Before introducing a new product to the market, a sample should be produced and a quality certificate obtained regarding its quality before proceeding with the production process.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) Although, a 150 KVA generator set worth Rs. 9,095,322 had been purchased and installed at the Pathiragoda manufacturing plant, it remained idle in the manufacturing plant for over a year due to the Corporation not taking the necessary steps to connect the generator set to the main circuit. Although there was a one-year warranty for the machine, the warranty period had not been utilized effectively and a formal agreement had not been reached to carry out maintenance work at the maintenance cost rates indicated for the next 06 years.	We agree with the audit report, and that this unexpected delay has occurred due to the delay in obtaining services from external institutions to prepare the specifications and obtain technical recommendations for the relevant switchgear and equipment. The necessary switchgear and equipment system to connect the power generator to the main electrical circuit has now been installed and steps have been taken to utilize it effectively.	Efforts should be made to utilize assets effectively.

- (b) A total of Rs. 30,000,000 was awarded to a private company for the establishment of an integrated computer software system (ERP System) covering all departments of the Corporation through a monthly payment scheme of Rs. 500,000 for a period of 05 years. In this case, the procedure as per 5.4.10(c) of the Procurement Guidelines had not been followed. Furthermore, although according to the bidding documents, this system was to be established within a period of 28 weeks, there was a delay of 02 months and it was not possible to recover the delay charges due to the failure to enter into a formal written agreement. Although, computer software systems had been installed and employee training had been provided, the Corporation had not taken steps to enter the opening balances into the system, and as a result, 79 units of computers and other equipment worth Rs. 6,307,151 purchased to implement the system and this ERP computer software system remained idle for almost 9 months, up to August 2025, the date of the audit.
- A procurement offer was made to an institution affiliated with Sri Lanka Telecom on 19 January 2024 to develop the ERP software system. As stated in the agreement, the ERP software system has been developed and implemented within this corporation for a period of 5 years at a monthly fee of Rs . 5 lakh. The software development activities have now been completed. Accordingly, practical training has been provided to the staff and steps will be taken to implement the ERP computer software system very soon.
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3.4 Underutilization of Funds

Audit Issue	Management Comment	Recommendation
Out of the Rs. 102,000,000 received from the Treasury as capital grants in the years 2017, 2018, 2020 and 2021, Rs. 26,149,834 or 26 percent had been held in a bank account unutilized as at 30 June 2025.	It is agreed with the audit report. The projects related to the provisions received from the Treasury as capital grants have not been completed. The steps have been taken to maintain that money in a bank account and the activities of the pharmaceutical manufacturing building were suspended due to the recent Covid pandemic and	Only essential and priority projects that can contribute to the development of the country while fulfilling the objectives of the Corporation should be planned and only the necessary provisions should be obtained from the General Treasury for the successful implementation of those plans. The remaining capital grant projects should be

several administrative issues, reviewed and necessary tasks and that the construction of that should be completed building is scheduled to expeditiously commence.

3.5 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) In the purchase of 8,930 kilograms of turpentine worth Rs. 12,430,560 for the year 2024, steps had not been taken in accordance with 6.3.2, 7.12.1 and 8.9.1(b) of the Guidelines. Furthermore, due to non-contracting, 150 kilograms had been supplied after a period of 18 days and 14 weeks had passed without supplying 150 kilograms. However, the delay fee could not be recovered. Accordingly, the purchase in the year under review was 6,811 kilograms and the annual plans had been prepared without properly identifying the requirement.	The procurement decision DPC-1-24/01/13 has been submitted to Colombo Commercials with the recommendation of the Technical Evaluation Committee. Prior to charging the delay fee as per the procurement decision, a recommendation has been obtained to determine whether any loss has been incurred in the production activities related to that delay and approval has been given to charge the delay fee, and accordingly, that no delay fee has been charged on the recommendation of the Medical Officer in Charge of the relevant warehouse.	Steps should be taken to enter into a written agreement in accordance with the guidelines of the Government Procurement Guidelines and including conditions such as the recovery of delay fee.
(b) Although, newspaper advertisements had been published for the purchase of 12,260 kilograms of gee oil worth Rs. 33,715,000 for the year 2024 under the national competitive system, no bidder had submitted prices for the same. Approval was given on 10 January 2024 to invite quotations by electronic mail for the purchase of 6,991 kilograms of gee oil through the registered and open market within 07 days. Although, there were a large number of major institutions supplying gee oil through electronic mail on 17 January 2024, quotations were not invited from those institutions but from the selected supplier and other	Since no bidder has submitted prices, the re-procurement decision was followed by e-mail invitations from registered and open market institutions. The prices submitted along with the sample reports and the recommendations of the Technical Evaluation Committee have been submitted to this institution in accordance with the procurement decision. Pelawatte and Milko have supplied our institution with gee oil, and the quantities requested by us have been supplied on time and according to the prescribed standards since previous years.	- Do-

institutions. Furthermore, procedures had not been followed in accordance with 2.8.4 (c), 5.4.10 (c), 6.2.2, 6.3.6, 7.8.4, 8.9.1 (b) of the Procurement Guidelines.

- (c) Although, the sample tests failed due to the acid value of the methyl oil in the sample test report being higher than the value specified in the international standards, the Corporation's Medical Committee recommended that it be suitable for production activities, and therefore, 2,208 kilograms of methyl oil worth Rs. 2,484,531 had been purchased from the supplier who failed the sample tests. In the case of delivery of goods after the date specified in the order, a delay fee of 1 percent for each week or part thereof exceeded the delivery period and 2 percent for the second week should be charged and the contract should be cancelled immediately after the end of the second week. However, without canceling the contract and regardless of the delay in time, a delay fee of 2 percent had been charged. Furthermore, the next purchase order had been issued before the goods were received in the warehouse for the purchase order.
- If there is a small difference in the accepted standards used by the Corporation, a purchase will be made only in cases where an agreement can be reached through discussion between the laboratory and the doctors. Before charging the delay fee as per the procurement decision, the delay fee will be charged on the recommendation of the Medical Officer in charge of the relevant warehouse, considering whether there has been any loss to the production activities related to the delay.
- Purchases that fail sample tests contrary to accepted standards should not be made and steps should be taken to enter into a written agreement including conditions such as the recovery of delay fees.

3.6 Defects in Contract Administration

Audit Issue	Management Comment	Recommendation
With the aim of meeting the needs of patients for herbal medicine and building a healthy society, the project to construct a herbal medicine manufacturing plant with an estimated cost of Rs . 45,725,759 had been initiated with a treasury allocation of Rs. 37,000,000. Although, 30 percent of the construction had been	It is agreed with the audit report. The focus has now been shifted to recommencing construction work according to the original plan and further advice has been obtained from the Additional Secretary (Engineering) of the Ministry of Health and Mass Media.	Further work on the project should begin as soon as possible and work should be done to complete the project.

completed by 02 January 2020 at a cost of Rs. 12,144,400, the construction had been temporarily stopped from that date due to planning and supervision weaknesses. As at 30 June 2025, the relevant construction of this project, which had been in progress for more than 06 years, had not been resumed.

Accordingly, the Procurement Committee has approved the construction work under the new estimate submitted by the State Engineering Corporation, and further discussions with the contractor are scheduled to be carried out expeditiously.

3.7 Human Resources Management

Audit Issue	Management Comment	Recommendation
Although, the approved staff of the Corporation as at 31 December 2024 was 375, the actual staff on that date was 328, resulting in 51 vacancies equivalent to 13 percent of the approved staff. Accordingly, it is observed during the audit that the existence of 17, 06 and 28 vacancies in management, assistant, primary level posts respectively may affect the performance of the Corporation.	It is agreed with the audit report. Steps have been taken to recruit Agriculture Officers from management level posts, and Manager (Supply) and Computer Data Officers are scheduled to be recruited from August 2025. Applications have been invited for several other posts and approval has been sought for recruitment to primary level posts, and after receiving approval, steps will be taken to recruit very quickly.	Steps should be taken to review and recruit the Corporation's approved staff and actual staff to suit the current situation.

4. Accountability and Good Governance
4.1 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
<p>Although, every government institution is required to work in accordance with the United Nations 2030 Agenda for Sustainable Development, the Corporation had not acted with sufficient understanding on how to operate in relation to the tasks falling under its scope in relation to the year under review. Accordingly, in accordance with the United Nations 2030 Agenda, the Sustainable Development Goals related to the institution's work had not been adequately identified, the milestones to be reached towards those goals, and the indicators to measure achievement of the goals.</p>	<p>It is stated that insufficient attention has been paid to these goals in the implementation of the action plan and that steps will be taken to incorporate and implement policies in this regard in the coming year.</p>	<p>Efforts should be made to identify targets, indicators and measure progress in achieving the Sustainable Development Goals.</p>