

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Milco (private) Limited (“company”) 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, 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. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 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 Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Auditor's Responsibilities for the Audit of Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit observations regarding the preparation of financial statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with reference to the relevant standard	Comments of the Management	Recommendation
(a)	Contrary to the provisions of Paragraph 32 of Sri Lanka Accounting Standard No. 01, debit balances amounting to Rs.38,373,551 included within creditor balances, accrued expenses, and refundable deposit balances were offset against credit balances without making the necessary adjustments; consequently, trade and other payables were understated by that amount. Similarly, credit balances amounting to Rs.33,054,462 included within trade and other receivable balances were offset against debit balances without making the necessary adjustments, resulting in the understatement of trade and other receivables by that amount.	These balances stem from accounting errors and have persisted in the accounts over a long period. Action is planned to rectify accounting errors and to remove long outstanding balances from the financial statements after taking the necessary approvals.	Relevant errors should be identified and corrected, and liabilities and assets should not be offset unless permitted by the standard.
(b)	As per the Sri Lanka Accounting Standard No. 16 paragraphs 31 and 34 requires that assets be revalued periodically following an initial revaluation, although the company failed to conduct any further revaluation between the 2008 revaluation and the year under review; consequently, the current values of the	It is intended to carry out an asset revaluation during the upcoming financial year.	Financial statements should be prepared in accordance with Sri Lanka Accounting Standards.

assets were not reflected in the accounting records.

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| (c) | <p>Although the Expected Credit Loss Method should have been applied to measure impairment for the trade receivable balance of Rs.1,083,193,368 in accordance with Paragraph 5.5.15 of Sri Lanka Financial Reporting Standard 09, an impairment provision of Rs.55,790,443 was made without performing such a calculation. Furthermore, impairment adjustments had not been made regarding the aggregate value of outstanding debts specifically those classified as overdue by more than one year based on age analysis and those owed by a closed-down entity amounting to Rs.179,092,663. Consequently, it was not possible to accurately assess the validity and impact of the impairment adjustments. Moreover, no formal measures had been taken to recover these debts.</p> | <p>Upon completion of the analysis of outstanding balances and the reconciliation process, the intention is to recover collectible amounts and take the necessary steps to write off uncollectible amounts from the accounts.</p> | <p>Financial statements should be prepared in accordance with Sri Lanka Accounting Standards.</p> |
| (d) | <p>A grant totaling Rs.11,886,564, received from a private entity on several occasions, was recorded under "balances payable to other parties" in the previous year's financial statements, instead of being recognized annually as deferred income. In the year under review, instead of making the necessary adjustment in accordance with Sri Lanka Accounting Standard 08, the amount was accounted for as a grant received during the year, and the full amount was reflected in the income statement as amortization.</p> | <p>Agrees with the audit observation.</p> | <p>Financial statements should be prepared in accordance with Sri Lanka Accounting Standards.</p> |

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Financial income for the year under review was overstated by Rs.	When calculating the interest income applicable to the dollar	Correct exchange rates should be used

	6,393,467 due to the use of different exchange rates when converting the interest income accrued for the first half-year and the interest income received upon maturity of the US Dollar fixed deposit held at the Bank of Ceylon amounting to US\$ 238,250.30 and US\$ 466,308.08, respectively into Rupee values; furthermore, the loss as of 31 December 2024, was overstated by Rs.10,753,064 due to the fluctuation of the deposit exchange rate. Accordingly, the total loss had been overstated by Rs. 4,359,597.	fixed deposit's maturity date of 06 July 2024, the Euro exchange rate was erroneously used instead of the dollar rate.	when converting foreign currency.
(b)	Although the acquisition of property, plant, and equipment during the year under review amounted to Rs.92,425,626, it was recorded as Rs.80,539,062 under investing activities in the cash flow statement; consequently, the cash flow generated from investing activities was understated by Rs. 11,886,564.	This discrepancy arises because the balance of Rs. 11,886,564, recorded as government grants during 2024, was adjusted against the cost of acquiring property, plant, and equipment in the cash flow statement.	The cash flow statement should be prepared accurately.
(c)	Although Note 1.3.8 stipulates that inventory should be valued at the lower of cost or net realizable value, and a provision of Rs. 12,096,362 had been made since 2006 for 3 categories of inventory, no supporting evidence was submitted for audit. Despite such segregations, no adjustments were made in the financial statements regarding the accumulated value of long standing, unusable stock amounting to Rs. 52,394,512 included in the closing inventory as at 31 December 2024. Furthermore, no provision or impairment adjustment had been made regarding the inventory valued at Rs. 42,255,235 held at a private entity since 2018 and included in the Statement of Financial Position or for the inventory amounting to Rs.	It is proposed to remove from the financial statements subject to approval bulk allocations made between 2003 and 2006 for which no details are available. Although packaging services were obtained from Tunip Lanka, the company ceased operations in 2020; consequently, while the stock balances were carried forward in the accounts, the physical stock no longer exists, and it is intended to make a provision for these financial statement balances in a future financial year. Milk cooling machines have been provided free of charge to self-managed dairy farmer societies for the purpose of preserving milk. As at now, some of those machines are not in working	Inventory should be valued at the lower of cost or net realizable value, and adjustments for losses on damaged inventory should be made in the financial statements.

30,062,931 that was not physically present. Furthermore, information regarding the distribution of a stock of milk chillers valued at Rs. 9,871,432 which were distributed free of charge to self-managed dairy farmer societies while the institution retained ownership was not submitted for audit. Accordingly, it was not possible to satisfactorily verify the existence, completeness, valuation, and ownership of the inventory held as at 31 December 2024.

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| (d) | Discrepancies amounting to Rs. 76,530,680 were observed between the balances recorded in the financial statements and the balances derived from the relevant schedules, vouchers, and remittance slips regarding 3 expense items and 2 current asset items. | A discrepancy of Rs. 598,543 arose from recording head office rental expenses as building advances, while the rental cost of Rs. 160,000 for the Chairman's official residence was also included under building rental expense. The error has been identified and corrected. A discrepancy in the value of goods in transit arose due to an accounting error, and action was taken to rectify it in 2025. The discrepancy in the debtor balance analysis for the Polgahawela factory has arisen because only debtors from the year 2017 onwards were included. In the future, a balance analysis will be conducted that includes outstanding debtor balances. | When recording transactions, actions should be taken to ensure they are recorded based on source documents and to verify their accuracy. |
| (e) | By the end of the year under review, no action had been taken to recover advances amounting to Rs. 4,699,557 paid to the Board of Directors and long outstanding receivables from state institutions totaling Rs.295,497,016 furthermore, no provision had been made for Rs. 16,515,810 of the amount receivable | The accounts reflect an outstanding balance of Rs.287,981,206 representing the remainder of the subsidy value agreed upon by the Ministry of Finance as well as the balance due from the Ministry of Education for the implementation of the liquid milk program for | Provisions should be made for long outstanding balances receivable from state institutions and action should be taken in coordination with those institutions to settle |

from state institutions. Furthermore, the company had failed to take action to settle three outstanding items totaling Rs. 36,751,412 over a long period.

school children. The failure to submit the necessary documentation for settling the majority of outstanding payments, along with the finance division's lack of sufficient information to clear these balances, has been a contributing factor.

these amounts, and outstanding payable balances should be settled.

- (f) Although the financial statements as at 31 December 2024 reflected a sum of Rs. 12,641,310,517 expended on construction activities for the Badalgama milk processing center project from a loan obtained by the Treasury from a foreign bank as a liability payable to the Treasury, the impact of this obligation could not be determined because no loan agreement had been entered into with the Treasury.
- After considering the need to maintain this balance in the accounts in the future, if this balance should be removed, it will be removed from the future financial statements subject to the necessary approvals.
- An agreement regarding the accounting of the loan amount should be reached with the relevant state institutions, and action should be taken accordingly.

1.5.3 Documentary Evidences not made Available for Audit

	Subject	Amount (Rs).	Evidence not	Comments of the management	Recommendation
(a)	Trade and other creditors	101,113,661	Creditor's balance Confirmation s	Companies were formally requested to submit balance confirmations directly to the audit division.	As confirmation of the balance has not been received, other evidence should be submitted to verify its existence.
(b)	Trade and other creditors	500,840	List of opening creditor balances	It is intended to resolve the matter or remove the relevant items from the financial statements following the necessary approvals.	The list of creditor balances should be submitted for audit.
(c)	debit and credit balances of Debtors	79,737,898 (Debit) 4,500,000 (Credit)	Confirmation of Debtor Balances	Written requests have been made to the relevant debtors, asking them to submit the relevant balance confirmations directly to the audit division.	As confirmation of the balance has not been received, other evidence should be submitted to

				verify its existence.
(d)	Deposit balances	3,086,185	Documents required to verify the accuracy of 94 deposit balances.	While the finance division possesses supporting documents for certain balances, such documents do not exist for others. Action should be taken to securely maintain source documents related to deposits and to produce them for audit.
(e)	Long-term loans	2,108,063	Documents required to confirm the loan balance	It is intended to take actions to remove the relevant balances from the accounts in a future financial year, following the receipt of the necessary approvals. Documents required to verify the loan balance should be kept securely.

1.6 Accounts Receivable and Payable

1.6.1 Receivable

Audit Observation	Comments of the Management	Recommendation
Compared to the previous year, trade receivables had increased by Rs. 567,358,744 during the year under review, of which Rs. 412,134,222, representing 73 per cent, was attributable to the Colombo Factory. A significant portion of these receivable balances consisted of amounts receivable from institutions to which credit sales had been made without obtaining bank guarantees.	These debtor balances had arisen due to the increase in sales in 2024 compared to 2023.	In order to ensure the security of the recovery of debts, credit sales should be made with bank guarantees in accordance with the company's policies.

1.6.2 Payable

Audit Observation	Comments of the Management	Recommendation
(a) As at 31 December 2024, the trade creditor balance at the Head Office was Rs. 7,473,222, whereas, according to the related creditors' balance confirmation, the balance was Rs. 10,384,843. Therefore, a difference of Rs. 2,911,621 had not been identified, and the necessary adjustments had not been made.	This was due to the accounting by MILCO Company in 2025 for 3 invoices received from the relevant creditor company in 2024, amounting to a total of Rs. 2,649,709, a difference in invoice values, and a difference in opening balances for the years 2018–2020.	Action should be taken to settle the relevant trade creditor balance.

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| (b) | Due to the failure of the Company to pay taxes from 1998 to 2007, the Department of Inland Revenue had imposed sum of tax arrears and penalties amounting to Rs. 7,561,888 on 09 January 2024, of which Rs. 5,749,709 had been paid during the year under review. Accordingly, a further amount of Rs. 1,812,179 remained payable. | The Company has taken action to submit letters of request together with affidavits, as instructed by the Income Tax Assessing Officers, to obtain a waiver of penalties imposed in respect of the unpaid NSL and SNC taxes and all other taxes. | Action should be taken promptly to settle the relevant balances. |
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1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Section 8(1) of the Social Security Contribution Levy Act, No. 25 of 2022	Although the tax return should have been completed and submitted to the Department of Inland Revenue by the 20th day of the month following the relevant quarter, the returns relating to the year 2024 had not been submitted on or before the due dates. Accordingly, the Social Security Contribution Levy returns relating to the 4 quarters of the year under review had been submitted with delays of 37 days, 164 days, 31 days, and 10 days, respectively.	Although the Social Security Contribution Levy had been paid by the due dates, the returns had not been submitted by the due dates due to an oversight in submitting the returns.	Action should be taken to submit tax returns in accordance with the provisions of the Tax Act, and penalties arising from failure to do so should be avoided.
(b)	Section 6.6 of the Operations Manual and Guidelines issued together with Public Enterprises Circular No. 01/2021 dated 16 November 2021	The financial statements should have been submitted to the Auditor General within 60 days from the end of the financial year, Although the financial statements for the year 2024 had been submitted with a delay of 257 days.	The submission of the financial statements for audit was delayed due to the delay in preparing the financial statements for the year 2024.	The financial statements should be submitted to the Auditor General by the due date in accordance with the provisions of the Circular.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a loss of Rs. 63,934,508, and the corresponding loss in the previous year was Rs. 469,384,394. Therefore an improvement amounting to Rs. 405,449,886 in the financial result was observed. The main reasons for the improvement were the increase in sales, the distribution expenses and administrative expenses not increasing significantly in comparison with the increase in sales, and the relatively lower financial expenses.

2.2 Trends Analysis of Major Income and Expenditure Items

The Company's sales revenue had increased by 6 percent compared to the previous year, while the cost of sales had increased by 4 percent. Other income had increased by 11 per cent compared to the previous year, while the total of administrative expenses, distribution expenses and other expenses had increased by 1 percent, and financial expenses had decreased by 11 percent.

2.3 Ratio Analysis

- (a) The Company's gross profit ratio for the year under review was 12 percent, while the net loss ratio was 0.4 percent. Further, earnings per share were negative 0.08 in the year under review, compared to negative 0.55 in the previous year. Accordingly, no return had been earned on the share capital during the year under review. Furthermore, it was observed that the existing operational inefficiencies and poor performance of the Company had adversely affected its overall results.
- (b) The Company's debt ratio was 0.74. That is, the total debt of the Company was 74 per cent of its total assets, compared to 72 per cent in the previous year. The debt-to-total capital ratio of the Company was 2.8 in the year under review. Accordingly, it was observed that the Company had a high level of debt capital and that its assets had been financed through debt capital.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	It had been revealed by an internal audit report that the Management Secretary of the Galle, Labuduwa Milk Chilling Centre had falsely recorded that 22,216 litres of milk had been received at the Centre from a society during the period from 01 June 2024 to 31 July 2025, and had paid an excess	A complaint had been made to the Akmeemana Police regarding this fraud, and the Labuduwa Milk Chilling Centre federation had taken action to remove the Secretary of federation who committed the fraud from the relevant position and from the Joint federation.	The responsible persons should be identified through an investigation into the excess payment, legal action should be taken against them, and action should be taken to recover the

amount of Rs. 4,296,509. Although a preliminary investigation had been commenced in this regard, the relevant activities had not been completed as at 30 June 2026. Further, a copy of the complaint was not submitted to audit to verify the fact that a complaint had been made to the Police regarding this incident.

relevant amount.

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| (b) | <p>5 packets of milk powder, each weighing 400 grams, were issued free of charge monthly to all employees of the Company, and including the 4 packets issued in April and December, a total of 64 packets of milk powder had been issued free of charge to each employee during the year. Accordingly, the Company had incurred an expenditure of Rs. 79,767,632 during the year under review for providing milk powder free of charge and issuing employee gift hampers. Further, although the Company had continuously reported losses, milk powder had continued to be issued free of charge in this manner without reviewing the matter.</p> | <p>The provision of milk powder free of charge in April and December was carried out with the full approval of the Board of Directors of the Company. Accordingly, this was an employee welfare measure provided by MILCO Company for the employees who work for the advancement of MILCO Company.</p> | <p>Necessary action should be taken to charge a price that covers the cost of production.</p> |
| (c) | <p>Although a long period had elapsed since the commencement of the construction of the Gatambe sales outlet, installation of the ice cream cup and cone filling machine at the Digana Milk Factory, modernization of the invoice finishing system, which had been shown as work in progress during the period from</p> | <p>As the spare parts and accessories required for the operation of the ice cream cone filling machine, which cost more than Rs. 15 million, could not be purchased at the time of purchasing the relevant machine, the machine could not be used for operations. Therefore, the Company is currently exploring the possibility of converting the relevant machine for filling ice cream cups. Further,</p> | <p>Action should be taken to complete the construction and modernization activities and achieve the expected objectives.</p> |

2017 to 2020, with a total value of Rs. 825,645,292, the activities had not been completed and the expected results had not been achieved as at the date of audit, 27 February 2026.

as the financial expenditure incurred for the modernization of the Digana Factory exceeded Rs. 809 million, the Company has currently appointed a committee to identify the values of the relevant assets for capitalizing such expenditure, and it is expected to capitalize the relevant assets based on the reports provided by the committee.

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	During the year under review, a loss of Rs. 35,927,758 had been incurred due to the sale of 3 types of products of the Company at prices lower than their production cost per unit.	When determining the market price of the relevant cheese product, it was necessary to consider the prices of other competing products, as well as to provide the relevant market intermediaries with the maximum profit margin when selling the product. Further, due to the low demand for the relevant product, a smaller quantity was produced. Accordingly, this situation had arisen due to the impact of the above factors. The relevant butter product is an item provided exclusively to the Company's employees on a welfare basis with the approval of the management, and it is expected that the price of the relevant product will be revised in the future.	Action should be taken to minimize the losses of the Company by selling the products at prices that include the cost and a profit margin.
(b)	Although the expected sales of 80 ml yoghurt and 180 ml UHT milk (Ultra High Temperature Milk) products in 2024 were 120,018,000 units and 23,100,000 units, respectively, the actual sales were 81,649,414 units and 19,414,484 units, respectively. Accordingly, the achievement of the expected sales was 68 per cent and 84 per cent, respectively.	Due to the sudden breakdown of the UHT production machine at the Polonnaruwa Factory, the production of the relevant 450 ml and 900 ml UHT products was carried out at the Digana Factory for several months, resulting in limitations in the production of the 180 ml UHT product at the Digana Factory. Further, as the sterilized milk production machine that had	Action should be taken to achieve the expected sales targets and to overcome operational weaknesses.

remained inactive at the Digana Factory was repaired in 2024 and milk sterilized milk was commenced due to the high demand that existed at that time, it was not possible to operate the UHT machine and the sterilized milk production machine simultaneously for production, resulting in a reduction in UHT production. In addition, the non-commencement of operations at the Badalgama Factory contributed to the reduction in sales units below the budgeted quantity of yoghurt. However, although the yoghurt production machines at the other factories were fully utilized, the budgeted targets could not be achieved.

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| <p>(c) When the raw milk purchased through the milk collection centers was delivered to the factories, the FAT and SNF contents were lower than those recorded at the time of purchase. Consequently, during 2024, the factories had made excess payments amounting to Rs. 46,463,371 to the milk farmers for raw milk containing quality levels lower than the standard accepted by the factories.</p> | <p>This difference was due to losses arising from variations in the quantity of milk in litres and its quality (FAT/SNF) when the milk supplied by the milk chilling centres to the factories was received by the respective factories on certain occasions.</p> | <p>Action should be taken to identify the reasons for the reduction in FAT and SNF contents in raw milk and to minimize the losses.</p> |
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| (d) | <p>The cost of Rs. 9,622,834 incurred for the destruction of 54,128 liters of milk at the Ambewela Factory as it was unsuitable for production had been included under other expenses in the financial statements of the year under review. This expenditure had increased significantly by 249 per cent compared to the previous year.</p> | <p>The relevant parties responsible for these disposals will be identified through internal investigations, and action will be taken to recover the relevant amounts from those parties.</p> | <p>The criteria for obtaining milk suitable for production should be further developed and action should be taken accordingly.</p> |
| (e) | <p>The Digana and Polonnaruwa Milk Factories had continuously reported losses during the period from 2022 to 2024, and the total losses for those years amounted to Rs. 908,377,135 and Rs. 226,973,992, respectively. Although the loss of Rs. 23,092,669 reported by the Colombo Milk Factory in 2023 had increased to a profit of Rs. 150,413,535 in 2024, the increase in sales on a credit basis in 2024 had mainly contributed to this improvement.</p> | <p>Although the collection of raw milk increased in 2024, the inability to operate the Digana and Polonnaruwa Factories at optimal capacity had an impact on this.</p> | <p>The capacity utilization of the loss making factories should be increased and they should be brought to a profitable position.</p> |
| (f) | <p>The production of liquid milk, which was 20,705,024 litres in 2021, had continuously declined and had decreased by 47 per cent to 11,039,432 litres by 2024. Further, during the relevant period, the production quantities of yoghurt, ice cream, butter, milk powder, and condensed milk had decreased within a range of 9 percent to 42 percent. However, only the production quantities of milk powder, butter, sterilized milk, and condensed milk had increased within a range of 12 per cent to 98 percent in comparison with 2023.</p> | <p>Due to the removal of the VAT exemption applicable to milk and processed milk products and the increase of the tax rate to 18 per cent, prices had to be increased in January 2024, resulting in a reduction in consumers' purchasing power, a decline in demand, and an increase in production costs. Accordingly, although the collection of raw milk increased in 2024, due to the decline in consumer demand, it was necessary to restrict the production of other products with a short shelf life, including yoghurt and UHT milk.</p> | <p>Products should be offered to the market, taking into consideration consumers' purchasing power in accordance with market conditions.</p> |

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| (g) | Less than 50 percent of the available production capacity of the factories had been utilized for the production of pasteurized milk, sterilized milk, UHT milk, butter, ice cream, ghee, and milk powder, while only between 50 percent and 75 per cent of the available production capacity had been utilized for the production of yoghurt, curd, and condensed milk. Cheese production was carried out only at the Digana Factory, and although 88 per cent of its capacity had been utilized, the maximum capacity had not been utilized. | Although the collection of raw milk increased to some extent in 2024, it was not sufficient to utilize the production capacities at an optimal or maximum level. Accordingly, production activities had been carried out by allocating the limited quantity of milk available among the different types of products in accordance with market demand. | The collection of liquid milk should be promoted to enable the Company's production capacity to be utilized optimally. |
| (h) | Compared to 2023, the sales volume of liquid milk had decreased by 19 percent in 2024, from 13,258,335 litres to 10,779,407 litres. Further, the sales volumes of pasteurized milk, UHT milk, yoghurt, ice cream, and cheese products had decreased by between 7 per cent and 40 percent. | The sales volumes had also decreased compared to the production. At the beginning of 2024, due to the imposition of VAT, it was necessary to increase the price of yoghurt by Rs. 10 at once and to increase the price of ice cream significantly. As a result, the previously high demand for yoghurt and ice cream declined rapidly. | Action should be taken to protect the Company's market share. |

3.3 Procurement Management

	Audit Observation	Comments of the Management	Recommendation
(a)	In accordance with Paragraph 4.2.1 of the 2006 Procurement Guidelines, the Company had not prepared a Master Procurement Plan for the 3 year period ending 31 December 2024. Accordingly, the procurement activities expected to be carried out during 2024 had not been prepared in a detailed manner.	The institution had not previously prepared a proper procurement report, and arrangements were made for the first time in 2024 to properly prepare the procurement plan for 2025.	Action should be taken in accordance with the Procurement Guidelines.
(b)	Although, in accordance with Paragraph 4.2.2(a) of the Procurement Guidelines, a time schedule should have been	Arrangements are being made to prepare the time schedule in accordance with the procurement plan in the future.	Action should be taken in accordance with the Procurement Guidelines.

prepared systematically, detailing the steps of each procurement activity from its commencement to completion, such a time schedule had not been prepared for the year 2024.