

State Pharmaceutical Corporation of Sri Lanka - 2019

1.1 Qualified Opinion

The audit of the financial statements of the State Pharmaceutical Corporation of Sri Lanka for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be reported to the Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2019 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 based on the matters described in the paragraphs 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 intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Auditor's Responsibility for the Audit of Financial Statements

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

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

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

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

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

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non - compliance with reference to the Standard	Management Comment	Recommendation
(a) According to the paragraph 32 of the Sri Lanka Accounting Standard 1, assets and liabilities should not be offset unless required or permitted by an accounting standard. However, as at 31 December 2019, the debit balances of the payable agency commission account amounting to Rs.13.46 million against to the credit balances amounting to Rs.45.15 as at that date , credit balance of the profit and loss of foreign currency account amounting to Rs.14.3 million against to debit balances of other operating expenses account amounting to Rs.984.74 million as at that date had been set off and shown in the accounts.	The unreconciled debit balance of the agency commission account is an old balance which has been brought forward before the year 2011. Actions will be taken to show under the other income if there will be an adequate amount of profit from foreign currency.	Actions should be taken as per the Sri Lanka Accounting Standard. Financial statements should be prepared for the year 2020 after rectifying such errors.
(b) According to the paragraph 36(a) of the Sri Lanka Accounting Standard 2, even though the	A cost formula is not used by the corporation and the	Actions should be taken as per the Sri Lanka Accounting Standard,

accounting policies used for measuring stocks including the cost formula should be disclosed in the financial statements, such disclosure had not been done in connection with the stocks remained in pharmacies.

price of the Financial statements pharmaceuticals is should be prepared for decided considering the year 2020 after the market price and rectifying such errors. the condition of other pharmaceutical markets.

- (c) According to the paragraphs 36 (b) and 38 of the Sri Lanka Accounting Standard 8, an estimate should be used for transactions, other events and situations since the date of which the estimate is changed in order to recognize the effect of the accounting estimate prospectively. However the Corporation had recognize the accounting effect of the change of the estimated useful life and the residual value of 02 fully depreciated motor vehicles as at 31 December 2019 and other 6 motor vehicles as Rs.2.79 million and it had been taken into accounts retrospectively.
- The correction of fully depreciation of motor vehicles is considered as a rectification of an error but not a revision of an estimate.
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1.5.2 Accounting Deficiencies

Audit Issue	Management comment	Recommendation
(a) The invoice value of a stock of pharmaceuticals amounting to Rs.749,212 had been taken twice into accounts and as a result the stock in transit account and the creditor's control account had been overstated by the same amount.	Actions will be taken to rectify the said calculation error when preparing accounts for the coming year.	Financial statements should be prepared for the year 2020 after rectifying such error.
(b) The cost of the stock remained as at 31 December 2019 had been understated and taken into accounts by Rs.873,304.	Retained stocks are recognized as unsalable stocks in the annual stock verification.	-do-

- (c) The stock of pharmaceuticals at the cost of Rs.20.62 million which had been purchased for 39 pharmacies and received to the stores as at 31 December 2019 had not been taken into accounts. This was collected at the end of the year and hence the distribution was delayed. -do-
- (d) The value of quality failed stock amounting to Rs.552,498 which had been included in the stock as at 31 December 2019 had not been written off against the profit. It is informed that an opportunity for correction of errors is requested. -do-
- (e) Although the difference between the cost and the exchange value of pharmaceutical stock remained as at 31 December 2019 at pharmacies should be recognized and it should be adjusted as income not generated, the cost of the remaining stock had not been recognized and provision of Rs.47.81 million only equivalent to 7.42 per cent of the stock exchange value had been made as unearned income. The cost is not taken as the base and the estimated value which is calculated by the relevant profit percentage has to be written off from the average stock. Difference between the cost and the exchange value of stocks remained at pharmacies should be recognized and it should be adjusted as unearned profits.

1.5.3. Unreconciled Control Accounts or Records

Item	Value as per the financial statements	Value as per the subsidiary records	Difference	Management Comment	Recommendation
	Rs. Million	Rs. Million	Rs. Million		
(a) Debts receivable from medical supplies division	27,855	27,988	133	The final account of the Corporation was not updated at the moment of receiving the balance receivable from the medical supplies division for reconciliation.	Reasons for the difference should be recognized and necessary adjustment should be made in the financial statements.
(b) Debts receivable	1.6	0.87	0.73	Although it had been informed to	-do-

from the
Department
of
Ayurveda

the National Audit
Office by the
Department of
Ayurveda as the
balance as per the
Appropriation
account was
Rs.876,554, it was
not informed to the
Corporation.

(c) The value of quality failed drugs as at 31 December 2019 which had been purchased for the sales of pharmacies	116.86	96.63	20.23	Actions will be taken to write off and further actions after the investigation carrying out to find the reasons of the difference.	Actions should be taken to recognize the reasons, making adjustments and to adhere with the Financial Regulations.
(d) Cost of the stock as at 31 December 2019	1,479.1	1,511.0	13.9	The difference of the cost calculated by the "Jeewane" production unit and cost included in the computer generated report has affected to the said difference. The cost of certain items was not included in the computerized report and the amounts of certain items of the computerized report were different from the amounts of physical verification reports.	Actions should be taken to recognize the reasons and to make necessary adjustments.

1.5.4 Documentary Evidences not made available for Audit

The following observations are made

Item	Amount	Audit evidence not supplied	Management comment	Recommendation
	Rs. Million			
149 balances of trade debtors	750.7	Balance confirmations	Relevant details of post payments were submitted to audit at the moment.	Balance confirmations should be submitted to audit.

1.5.5 Accounts Receivable

Audit Issue	Management Comment	Recommendation
(a) Out of the balance receivable from the Medical Supplies Division amounting to Rs.27,854.82 million, a sum of Rs.211.59 million had been brought forward from 10 years to 21 years.	Actions to be taken to write off the old balances with the approval of the General Treasury.	Actions should be taken to settle or to write off the old balances with the proper approval of the General Treasury.
(b) The credit policy of the Corporation is to recover the trade debtor balances within 30 to 45 days of sales. Nevertheless, out of the debtor balance of Rs.1,341.85 million as at 31 December 2019, a sum of Rs.12.79 million from Private, Government and semi Government organizations over a period more than 5 years and a sum of Rs.14.62 million from the Sri Lanka Parliament over a period more than a year had remained outstanding. Legal actions had been taken to recover only a sum of Rs.3.14 million out of the said amount.	Out of the balance of Rs.12.79 receivable from the Private, Government and semi Government organizations over a period of more than 5 years, the amount due from Government hospitals and other organizations was Rs.2.08 million. Legal actions were taken to recover a sum of Rs.3.14 million, Although several discussions were taken place with the relevant parties including the Speaker and Secretary to Health to recover the sum of Rs.14.62 million receivable from the Parliament, a favorable reply was not received. Hence a provision for bad and doubtful debts was made for the total value due to the uncertainty of recovering.	Recovery of debts should be accelerated within the due period of time according to the credit policy of the Corporation and the agreements.

1.6 Non - compliances with Laws Rules and regulations

Audit Issue	Non compliance	Management comment	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 103, 104 and 105	(i) Actions had not been taken to conduct a preliminary and full investigation and to identify the responsible parties in connection with accidents taken place in 21 instances during the year under review for 10 vehicles belong to the Corporation and to submit those reports to relevant parties.	A detailed report will be submitted to audit explaining the way acting in this regard.	Action should be taken as per the Financial Regulation.
	(ii) Actions had not been taken to conduct a preliminary and full investigation and to fix the responsibility and to recover the loss in connection with the stock of medical supplies at the cost of Rs.74.21 million and the misplaced stock of medical supplies at the cost of Rs.385,531 expired during the year under review and the previous year.	Action will be taken as per the Financial Regulation after examining properly in this regard.	Actions should be taken as per the Financial Regulations.
(ii) Financial Regulation 571	Actions had not been taken to settle or to credit to the deposits amounting to Rs.1.91 million as at 31 December 2019, which had exceeded two years to the Government revenue	Actions will be taken to credit the unclaimed deposits over 3 years to the revenue after confirming by the import section.	- Do -

2. Operational Review

2.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) It was observed in an audit examination carried out relating to a sample of 20 pharmaceutical items that, pharmaceuticals had been purchased for each pharmacy during the year under review without considering the stocks remained in the main stores. As a result, the possible advantages of discounts had lost or reduced and purchasing had to be made in higher prices as well. Out of the 20 pharmaceutical items included in the sample, stock at the cost of Rs.186,758 relating to 05 items had expired due to this reason.	It is expected to give a specific answer after examining the matters based to each purchasing and the observations.	Purchasing should be made as to be obtained maximum advantages of discounts after recognizing the entire requirement properly and the possibility of expiring stocks of pharmaceuticals should be minimized.
(b) It was confirmed according to the age analysis of the goods in transit account as at 31 December 2019 that a stock at the cost of Rs.619,720 had remained as a stock in transit over a period more than 6 months. Such stocks had remained as a stock in transit for a long period of time due to the delay of issuing debit notes for the stocks received by the Medical Supplies Division and actions not being taken to settle the dispute for rejecting stocks by the Medical supplies Division.	Agreed with the observations.	The system should be prepared as to be observed the reasons for the delays of issuing debit notes to the stocks received by the Medical Supplies Division and the reasons for rejecting stocks
(c) The balance of the container deposits account as at 31 December 2019 was Rs.11.74 million and out of that a sum of Rs.6.44 million should be recovered since 2 years to 12 years. Any money could not be recovered for Rs.5.44 million which included in the said amount.	When considering the period of 2 years to 12 years ,a sum of Rs.5.7 million which was scheduled to be written off was included in the receivable amount of Rs.6.44 million	Recovering of container deposits should be accelerated.
(d) The balance of the account for payable bank bills as at 31 December 2019 was Rs.12,916.92 million. It had consisted with	Actions will be taken to include into the income after	Actions should be taken to settle or to take into the revenue

the 100 per cent value of letter of credits amounting to Rs.34.28 million more than a period of 3 years and Rs.104.22 million more than a period of 2 years which had not been paid to the suppliers.

determining the values which was remained over a period of 3 years.

after verifying such amounts.

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| <p>(e) The credit balance of the payable agency commission account as at 31 December 2019 was Rs.31.69 million. It had consisted with commission of Rs.6.65 million more than a period of 3 years and Rs.14.27 million more than a period of 2 years which had not been paid to local agents. Further actions had not been taken to settle the debit balance of Rs.13.46 million which had been remained in the said account over a period of 2 years.</p> | <p>Actions will be taken to take the unclaimed credit balances of the agency commission account which was remained more than 3 years into accounts as revenue. Actions will be taken to write off the unreconciled debit balance amounting to Rs.13.46 million because it was remained since before the year 2011.</p> | <p>Actions should be taken to settle or to take into the revenue the agency commission unpaid over a long period.</p> |
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2.2 Operating Inefficiencies

Audit Issue	Management Comments	Recommendation
<p>(a) The total cost of the quality failed, expired and damaged drugs which had been purchased for the sale of the Corporation as at 01 January 2019 was Rs.116.86 million and the total cost of the quality failed, expired and damaged drugs during the year under review was Rs.51.67 million. Out of the total cost of Rs.24.63 million relating to the quality failed pharmaceuticals during the year under review and the previous year, a sum of Rs.6.9 million had not been recovered even up to 12 May 2020. Further the total loss incurred by the Corporation during the year under review and the previous year due to expiration and damage of pharmaceuticals was Rs.83.79 million.</p>	<p>The cost of expired pharmaceuticals during the year under review was Rs.36.97 million and the cost of expired pharmaceuticals during the previous year and the year under review was Rs.74.2 million</p>	<p>The value of quality failed pharmaceuticals should be recovered from the suppliers. Remedy actions should be taken in connection with expiring pharmaceuticals and losses should be recovered from the responsible parties.</p>
<p>(b) A sum of Rs.1,839.15 million should be recovered from the suppliers as at 31 December 2019 including the cost of quality failed and damaged pharmaceuticals supplied</p>	<p>In most of times, suppliers make complains in connection with quality failure and damages and</p>	<p>Recovering process from suppliers should be accelerated.</p>

to the Medical Supplies Division and low supply of pharmaceuticals and administration cost and the expenses for destroying such stocks. Out of that amount, a sum of Rs.791.3 million could not be recovered even up to 30 June 2020. A sum of Rs.89.21 million which had been included in the said balance should be recovered from the black listed suppliers and hence the recovery of the said amount was uncertain.

have to go to the arbitrators in this regard. Therefore actions will be taken to confirm whether the appropriate standards had been followed in examining and storing of goods at the time of receiving goods.

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| (c) | A risk of expiring and damaging stocks were observed due to actions not being taken to make decisions even up to 31 May 2020, in connection with release of 94,181 units of stocks at the cost of Rs.16.22 million relating to 21 items of stocks which had been retained without issuing on various reasons during the years 2017,2018 and 2019 as well. Number of 8,739 item units of Erythromycin Dry Syrup 125mg/5ml at the cost of Rs.739,931 which had been retained since 11 August 2017 had expired at Ratmalana stores on 20 May 2020. | The relevant cost to be recovered from the suppliers | Decision making process in connection with items retained without issuing should be accelerated in order to minimize the losses occurred from expired pharmaceuticals and damage pharmaceuticals. |
| (d) | The total loss incurred by 24 pharmacies out of 40 pharmacies in operation during the previous year was Rs.45.13 million. However the total loss incurred by 15 pharmacies out of 46 pharmacies in operation during the year under review was Rs.22.41 million. | Although some of pharmacies were located in the premises which were not profitable, it has to be conducted in such areas considering the benefit for the general public. | Actions should be taken to minimize losses and to earn profits |

2.3 Procurement Management

----- Audit Issue -----	----- Management Comments -----	----- Recommendation -----
(a) In emergency local purchasing for the Medical Supplies Division, a bid bond had not been obtained as per the Guideline 5.3.11 of the Government Procurement Guideline and a performance bond had not been obtained as per the Guideline 5.4.10 (b) and action had not been taken to enter into a contract agreement as per the Guideline 8.9.1. (b). Further	Bidders presented for emergency local purchasing are said to be submitted a fix bid bond and a performance bond valid for the whole year. Although the methodology to be followed for emergency and local purchasing was presented to the Board of Directors and the approval was received, actions will be taken to	Purchasing procedures and policies which should be followed for emergency local purchasing should be defined and written instructions or guidelines should

purchasing procedures and policies which should be followed for the said section had not been determined and written instructions or guidelines in this regard had not been prepared as well.

document an updated methodology in order to avoid deficiencies pointed out after studying the matters included in those documents.

be prepared after obtaining the proper approval.

- (b) The following observations are made in connection with purchasing of 8,945 Trastuzumab injection 440mg with solvent in 20ml vials in 14 instances in the years 2018 and 2019 for the Medical Supplies Division by incurring a sum of Rs.891.18 million from a local supplier under the trade name Herticad.

- (i) Although a Technical evaluation Committee consisted with 05 members including 02 consultants, should be appointed by the Ministry of Health for technical evaluation, because the Procurement value had been exceeded Rs.50 million in 13 instances out of the 14 procurements, the corporation had appointed a Technical Evaluation Committee consisted with 3 members for the said procurement. Any consultant had not been appointed for the said committee as well.

It could not be able to call 5 members to the meeting practically for technical evaluation because a period of only 3 days is allowed to the technical section to evaluate bids in local and emergency purchasing. Specially, it is very difficult to call senior consultants for such meetings because they are very busy. Hence considering such matters, the approval of the Chairman of the Corporation was given to obtain the recommendation of one physician for technical evaluation based on the requirement of receiving drugs to the patients without delay. A transparent method was not available to name consultants for technical evaluation of procurements.

Procurement should be managed according to the Government Procurement Guideline and the updated amendments thereof from time to time. Losses and damages occurred as a result of negligence of such provisions should be surcharged to the officers who responsible for the matter.

- (ii) Only one consultant had been nominated for the technical assistance by the Chairmen of the Corporation who the Chairman of the Department procurement Committee as well. Based on that nomination

It could not be able to have recommendations of a committee consisted with 5 members including 2 consultants practically because technical evaluations of emergency purchasing's should be completed within a very short

Procurement should be managed according to the Government Procurement Guideline and the

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| <p>assistance of only one consultant had been obtained for the 13 Technical Evaluation Committees. The Technical Evaluation Committee had submitted their recommendation based on the recommendation given by the said consultant.</p> | <p>period. Accordingly actions had been taken as per the approval of the Chairman which had been given to obtain the recommendation of one physician for technical evaluation</p> | <p>updated amendments thereof from time to time. Losses and damages occurred as a result of negligence of such provisions should be surcharged to the officers who responsible for the matter.</p> |
| <p>(iii) Out of the 14 procurement, technical evaluations relating to 6 procurements had been done by one consultant and other 2 procurement had been done by other 2 consultants.</p> | <p>Appointing of consultants for technical evaluation of emergency purchasing is done by the Head of the Department, the recommendation given by the appointed consultant was submitted for the decision of the Procurement Committee.</p> | <p>-do-</p> |
| <p>(iv) According to the provisions of the procurement Guidelines, the consultant who assisted to the Technical Evaluation Committee was not allowed to reject bids due to unavailability of prior experience of a specific pharmaceutical. However the lowest bids relating to the 14 procurements had been rejected by the Procurement Committee based on the recommendation given by the Consultant that the productions of the lowest bidder had not been used. An additional cost of Rs.230.86 million had to be incurred by the Corporation due to rejection of lowest bids.</p> | <p>In the process of procurement of cancer drugs, the purpose of obtaining recommendations of a consultant is to obtain an evaluation based on the knowledge and the experience of the consultant in connection with the usage and other technical matters of the drug. As these cancer drugs have a lot of side effects and other harmful effects, there is no any other alternative to the Technical evaluation Committee other than acting based on the consultant's recommendation.</p> | <p>Further actions should be taken after carrying out an investigation regarding this procurement.</p> |
| <p>(v) The drug namely Trastuzumab under the trade name of Herticad had been registered at first time</p> | <p>Not commented</p> | <p>-do-</p> |

by the National Drug Regulatory Authority on 18 February 2016 and it had been purchased continuously since then. If the lowest bid can be rejected due to unavailability of prior experience, there was no possibility of purchasing the drug namely Horticad in the year 2016.

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| <p>(vi) Although a maximum control price had been set to the Trastuzumab injection 440mg as per Rs.95,000 per unit by the Gazette Notification dated 31 August 2018, payment had been made for 500 units as Rs.135,900 per unit relating to the purchase order issued on 04 September 2018. Accordingly a sum of Rs20.45 million had been paid exceeding the control price.</p> | <p>The tender price of the drug was controlled after 23 August 2018 the date of the approval. Payments were made after receiving instructions of the National Drugs Regulatory Authority on the advice of the then Chairman (the Chairman of the Procurement Committee).</p> | <p>Further actions should be taken after carrying out an investigation regarding this procurement.</p> |
| <p>(c) The main purchase order had been issued for purchasing 80,000 vials of Cefriaxone Injection 500mg for the Medical Supplies Division as Rs.18.72 per unit in the previous year and the supply had been made late. In order to avoid the shortage of stock occurred as a result of the said late delivery, 10,998 units of said drug had to be purchased at Rs.490 per vial from the local market. Accordingly an additional cost of Rs.5.18 million had to be incurred by the Corporation. The additional cost incurred due to the delay of the supplier had not been recovered from the supplier as per the order conditions.</p> | <p>The payment relating to the main purchase order was not made to the supplier. A debit note was issued exceeding the total amount of the main order for recovering the additional cost and actions are being proceeded in this regard.</p> | <p>Actions should be taken to recover the additional cost from the supplier.</p> |
| <p>(d) The requirement of the year 2018 has been recognized as 2 million vials of Cefuroxime for Injection USP 750 mg and the main purchase order had been</p> | | |

issued in the year 2018 for purchasing the said quantity at the total cost of Rs.58.93 million consisted with unit cost of Rs.29.46. The following observations are made in this regard.

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| <p>(i) The supplier had supplied 2,000,000 vials of the said drug on 18 July 2018 and an invoice of Rs.58.52 million had been sent only for 1,914,500 vials. The amount exceeding the amount mentioned in the invoice of 85,500 vials had not been received by the Medical Supplies Division and the said stock had not been taken back by the supplier. Hence it had been retained in a private stores and the stock of 85,500 vials at the cost of Rs.2.51 million had become unusable.</p> | <p>This situation was occurred due to rejection of 85,500 vials which had been supplied exceeding the amount mentioned in the invoice by the Medical Supplies Division.</p> | <p>Further actions should be taken after carrying out a proper investigation regarding this procurement</p> |
| <p>(ii) Distribution of 100,000 vials out of the 1,914,500 vials supplied had been suspended because those were not confirmed the United State Pharmacopeia standard. A sum of Rs.2.94 million which should be recovered from the supplier in this regard had not been recovered.</p> | <p>Although 1,914,500 vials were supplied on 18 July 2018 , distribution was suspended on 5 April 2019.</p> | <p>- Do-</p> |
| <p>(iii) In order to avoid the shortage of stock which had been occurred due to the Medical supplies division not being taken over the 85,500 vials supplied on 18 July 2018 but not included in the invoice, 100,000 vials being failed the quality on 05 April 2019, and delays of the procurement for the requirement of the year 2019, 375,000 vials had been purchased from the local market. An additional cost</p> | <p>Purchasing of 375,000 vials locally during the year under review was not an after effect of the delay of the main order. Therefore the additional cost relating to purchasing of 375,000 vials could not be recovered from the said supplier. Recoveries will be done as per the procedure followed at present for quality failed drugs in connection with 100,000 vials of which the distribution was suspended due to non-compliance</p> | <p>Further actions should be taken after carrying out a proper investigation regarding this procurement.</p> |

of Rs.37.49 million had been incurred due to purchasing of 352,000 vials for Rs.125.50 per unit from the local agent of the supplier who had supplied the main order for the requirement of the year 2018 for Rs.29.46 per unit and purchasing of remaining 23,000 Vials for Rs.190 per unit from another supplier. This additional cost could be minimized if actions were taken to take over the stock of vials 85,500, to recover the funds or to obtain 100,000 new vials instead of quality failed 100,000 vials and to make procurements for the requirement of the year 2019 without delay. However actions had not been taken accordingly.

- (e) Two orders had been issued during the year under review for purchasing of 2,127 vials of Bevacizumab Injection 100 mg at the order cost of Rs.70.98 million. The following observations are made in this regard.

- (i) Although a Technical Evaluation Committee consisted with 5 members including 2 consultants should be appointed by the Ministry of Health for technical evaluation because the procurement value had been exceeded Rs.50 million, a technical Evaluation Committee consisted with 3 members had been appointed by the Corporation for this procurement. Any consultant had not been appointed for this Technical Evaluation Committee as well.

to USP standred.

It could not be able to call 5 members to the meeting practically for technical evaluation because a period of only 3 days is allowed to the technical section to evaluate bids in local and emergency purchasing.

Procurement should be managed according to the Government Procurement Guideline. Losses and damages occurred as a result of negligence of such provisions should be surcharged to the officers who responsible for the matter.

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| (ii) | Only one consultant had been nominated for the technical assistance by the General Manager of the Corporation and based on that nomination assistance of only one consultant had been obtained for the Technical Evaluation Committee. The Technical Evaluation Committee had submitted their recommendation based on the recommendation given by the said consultant. | The Chairman did not report for the duty in late 2018 and therefore considering the urgent requirement of pharmaceuticals, the consultant was recommended by the General Manager. The approval of the then Chairman of the Corporation was given to obtain the recommendation of one physician for technical evaluation. A transparent method was not available to name consultants for technical evaluation of procurements. | -do- |
| (iii) | According to the provisions of the procurement Guidelines, the consultant who assisted to the Technical Evaluation Committee was not allowed to reject bids due to unavailability of prior experience of a specific pharmaceutical. However purchasing of 532 vials from the first lowest bidder and 1,595 vials from the second lowest bidder had been recommended by the Procurement Committee based on the recommendation given by the Consultant that the productions of the lowest bidder has not been used. An additional cost of Rs.10.36 million had to be incurred by the Corporation for purchasing of 1,595 units as Rs.6,500 per unit due to rejection of lowest bids. | The consultant had recommended that there were not experience about the samples submitted by the supplier who had submitted lowest price for the said procurement. Hence purchasing has to be made from the bidder who had submitted the second lowest price for emergency supplies in order to confirm the safe guard of the patients. Unavoidable additional cost could be occurred in such instances. | -do- |
| (iv) | Although two suppliers who had submitted bids had been registered in the National Drugs Regulatory Authority for the relevant drug, the Procurement Committee had decided to test only the | It took time to inform the bidder about the procurement decision. | -do- |

samples of the lowest bidder from the TGA Australia Institute. Twenty eight days had been taken to inform the above said decision to the lowest bidder.

- (f) During the year under review, 180,000 kilograms of Tropical Chlorinated Lime (TCL) at the order cost of Rs.79.2 million had been purchased. The following observations are made in this regard.

- (i) Although a Technical Evaluation Committee consisted with 5 members including 2 consultants should be appointed by the Ministry of Health for technical evaluation because the procurement value had been exceeded Rs.50 million, a technical Evaluation Committee consisted with 3 members had been appointed by the Corporation for this procurement. Any consultant had not been appointed for this Technical Evaluation Committee as well.

The total estimated cost of this order was Rs.20.17 million, Among 4 members nominated by the Chairman, one consultant was selected for the technical section randomly and a panel of consultants will be nominated by the Consultant Service Council for technical evaluations since the next year.

Procurement should be managed according to the Government Procurement Guideline. Losses and damages occurred as a result of negligence of such provisions should be surcharged to the officers who responsible for the matter. Further actions should be taken after carrying out a proper investigation regarding this procurement.

- (ii) Although the assistance of any other external instructor can be obtained to the Technical Evaluation Committee, bids of the procurement of Tropical Chlorinated Lime had been sent to a micro biology consultant for

Agreed with the observation. However the said consultant was selected from the consultants list approved by the Ministry of Health.

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evaluation. However information had not been submitted to audit relating to the selection procedure of the consultant for the above said bid evaluation. Further an appointment letter had not been issued to the consultant in this regard.

- (iii) In the process of procurement, a service fulfilled by a consultant should be carried out under the guidance and the supervision of the Technical Evaluation Committee. However the said bid evaluation had been done only by the said consultant. The general practice of evaluation of bids with low values is to submit to a consultant for the expert opinion after inquiring and noting other technical matters relating to the bid. The relevant assistance and guidance is given by the Technical Evaluation Committee to the consultant. -do-
- (iv) The lowest bid of Rs.343.85 per one kilogram of TCL had been rejected by the consultant who had done the technical evaluation without giving any reasonable and acceptable reason. Although the bid could not be rejected based on reasons such as production labels, instructions for users, security data and hazards mark not being fulfilled because such requirement had not been mentioned in tender documents or requirement specifications, the lowest bid had been rejected by the said consultant on the basis of such 4 requirements not being fulfilled. Further a requirement of Hazards mark had not been mentioned in the SLS 759 – 1986 standard. The decision of the recommendation depends on the expert opinion of the consultant of the relevant section. Production labels and instructions for users are mandatory component that must be presented in a product that falls into this category, This requirement had mentioned in the printed condition number 14. -do-
- (v) According to the specification prepared by the Medical Supplies Division for TCL, Matters included in the tender conditions were mentioned clearly when entering the opinion of the -do-

chlorine percentage not less than 30 per cent should be included in Tropical Chlorinated lime BP. According to the quality test report issued by the Industrial Technical Institute in connection with the samples presented by the lowest bidder, the percentage of chlorine included in the sample was 39.4 per cent. Therefore there was no impediment to accepting that bid. Although it had been mentioned in the bid evaluation report that the lowest bid had not comply with requirement specifications, it had not been mentioned specifically that which specifications are not complied with.

consultant. However a set of criteria will be introduced from the next year for technical evaluation according to the recommendations made by the World Health Organization and all technical evaluation should be done accordingly.

(vi) Actions had been taken to award the procurement to the bidder who had submitted the highest bid as Rs.440 per 1 kilogram of TCL as per the recommendation made by the Technical Evaluation Committee depends on the recommendation of the consultant. As a result, the additional cost of Rs.17.3 million has to be incurred by the Corporation.

Awarding tender to the supplier who had submitted the other bid by rejecting the lowest bid depended on the matters considered in the technical evaluation. Tender was awarded to the lowest responsive bidder.

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(vii) However it was observed in physical audit investigation carried out on 19 May 2020 that it had been mentioned in the label that 70 per cent to 75 per cent chlorine had been included in the chemical supplied by the supplier who had been awarded the procurement, the words Tropical Chlorinated lime had not been mentioned in the item supplied and instead of that words Chlorinated lime BP had only been mentioned.

According to the test reports submitted, the names Tropical Chlorinated lime (TCL) and Chlorinated lime (BP) are used for the same item.

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Accordingly it was observed that instead of Tropical Chlorinated lime (TCL) ordered by the Corporation, Calcium hypochlorite which 70 per cent to 75 per cent chlorine included in as mentioned as in the label had been supplied by the supplier. However, according to the report issued by the Industrial Technology Institute after examining the samples which had been taken from the stock of Tropical Chlorinated lime (TCL) on the requirement of audit, the percentage of chlorine included in the stock supplied was 66.5.

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| <p>(viii) Further in the year 2018, in technical evaluation of the procurement of Tropical Chlorinated lime (TCL), the bidder who had been submitted the lowest bid for the products of the same manufacturer supplying products in previous years had been rejected mentioning that production labels not being available, security data not being available instructions for users not being available, Hazards mark not being available and prior complains available and the highest bidder had been recommended. Accordingly the additional cost which had to be incurred by the Corporation due to rejecting the lowest bid in the year 2018 was Rs.39.58 million.</p> | <p>The decision of the recommendation depends on the expert opinion of the consultant of the relevant section and the procurement was awarded to the most responsive bidder.</p> | <p>Further actions should be taken after carrying out a proper investigation regarding this procurement.</p> |
| <p>(ix) According to the initial order, 120,000 kilograms of Tropical Chlorinated lime (TCL) should be supplied as at May 2020. However it was observed in the physical audit examination</p> | <p>According to the documents the item supplied was not Calcium hypochlorite but Chlorinated lime and if the supplier fails to supply as per the indent, actions will be taken to recover the liquidated</p> | <p>-do-</p> |

carried out on 19 May 2020 that damages.
 25,200 kilograms of Calcium
 hypochlorite only had been
 supplied by the supplier even up
 to 19 May 2020.

- (x) When considering the cost incurred by the Corporation for purchasing 1 kilogram of Tropical Chlorinated lime (TCL) during the period of 3 years from the year 2017 to the year 2019, Tropical Chlorinated lime (TCL) had been purchased in the year 2018 at a price 57 per cent higher than the price of the year 2017 and in the year 2019 at a price 100 per cent higher than the price of the year 2019.
- The procurement was awarded to the lowest and responsive bidder who had selected and recommended in the technical evaluation.
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2.4 Deficiencies in Contract Administration

Audit Issue	Management Comment	Recommendation
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<p>(a) According to the agreement entered into with the relevant contractor on 19 December 2016 in order to establish an Enterprise Resource Plan for the Corporation, the value of the contract was Rs.49.3 million and the contract should be completed by 19 February 2018. The following observations are made in this regard.</p> <p>(i) The performance of the project was continuously at a very low level and the period of the contract had been extended over a period more than 3 years since the date of the agreement. After 3 years, the agreement had been terminated on 20 February 2020.</p>	<p>Agreed with the observation. Actions had already been taken to terminate the project due to the fact that the project not being implemented within the due time frame continuously.</p> <p>Quotations were called</p>	<p>Contract administration should be carried out properly according to the Government procurement Guideline. Actions should be taken to complete the project.</p>

again in this regard and necessary initial steps were already taken to complete the project as soon as possible.

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| (ii) | Out of 9 items of computer and accessories purchased by incurring a sum of Rs.32.36 million in the years 2018 and 2019 for implementation of the project , 497 units had not been used for the project activities. Further, out of the above said computer and accessories 266 units of 07 items at the cost of Rs.15.56 million had been issued for the use of other purposes of the Corporation. Out of the remaining cost of Rs.16.79 million of 7 items of computer and accessories, 231 units had been remained idle in the stores even up to 30 June 2020. | Actions will be taken to use the relevant items effectively as per the requirement | Actions should be taken to use the relevant items effectively as soon as possible. |
| (iii) | Although the contractor had agreed to supply 4 computer servers due to deficiencies of the 4 computer servers remained in the stores , the Corporation had failed to obtained said equipment again even up to 30 June 2020. | Although the contractor agreed to re supply Server Computers mentioned above it was delayed due to the prevailing situation previous days and action will be taken to obtain server computers as soon as possible. | Actions should be taken to obtain the 4 server computers as soon as possible. |
| (iv) | The failure of the project after a period more than 3 years had been affected directly to the data system which was connected to all activities of the Corporation including operation of pharmacies. | Agreed with the observations. Delays and omissions of the party that took over the project had led to that situation. Actions will be taken to introduce a new project as soon as possible to avoid the said situation. | Actions should be taken to make the project success. |

3. Accountability and Good Governess

3.1 Cooperate Plan and Annual Action Plan

Audit Issue	Management	Recommendation
	Comments	
The cooperate plan and the annual action plan had not been prepared for the year 2019.	The Management Accountant in charge of the subject was promoted to a Deputy General Manager post and after that the post of Management Accountant was abolished. Hence it was difficult to prepare the cooperate plan and the action plan basically and actions will be taken to prepare those plans as soon as possible following alternative methodologies.	Cooperate plan and the action plan should be prepared and should be submitted.