State Pharmaceuticals Corporation - 2020

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1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the State Pharmaceuticals Corporation for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement financial performance, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2020, and its financial performance and 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 paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.

- An understanding of internal control relevant to the audit was obtained in order to design 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 audit 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 audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

  - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;

- Whether the Corporation has performed according to its powers, functions and duties; and

- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations relating to the Preparation of Financial Statements
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1.5.1 Non-compliances with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
(a) Assets and liabilities should not be set off against each other unless required or authorized otherwise in terms of Paragraph 32 of the Sri Lanka Accounting Standard 01. Nevertheless, the payable debit balance of Rs. 13.39 million existed in the agents' commission account as at 31 December 2020, had been set off against the credit balance of Rs. 42.29 million as at that date.	The un-reconciled debit balance of Rs. 13.46 million in the agents' commission account had continued to exist since the years prior to 2011. As such, it is not possible to specifically indicate as being receivable from an institution or a person. At present, the Board of Directors has been requested to write off that balance from the books under approval of the Audit Committee, thus showing the sum under agents' commission as had been done previously. Upon being approved by the Audit Committee and the Board of Directors, the Treasury has	Sri Lanka Accounting Standards should be followed.

		been requested for approval to write the balance off in terms of Public Finance Circular, No. 01/2020.	
(b)	The accounting policies followed in measuring the stocks, including the cost formula, should be disclosed in the financial statements in terms of Paragraph 36 (a) of the Sri Lanka Accounting Standard 02. However, such a disclosure had not been made on the balance stocks of the *Osu Sala* outlets.	The Corporation does not follow a cost formula. Prices of drugs are decided based on market prices and other dynamics of the drug market. The remaining stocks of the *Osu Sala* outlets are shown after adjusting the non-realized profits. The accounting policy followed in measuring the stocks had been shown under Paragraph 4.7.3 in the financial statements in terms of Paragraph 36 (a) of the Sri Lanka Accounting Standard 02.	The accounting policy followed in measuring the stocks had not been shown under Paragraph 4.7.3 in the financial statements. As such, it is necessary to follow the Sri Lanka Accounting Standard.
(c)	Due to failure in annually reviewing the residual value and useful life of the non-current assets in terms of Paragraph 51 of the Sri Lanka Accounting Standard 16, fixed assets costing Rs. 29.84 million as at 31 December 2020 had been still in use despite being fully depreciated. Action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.	There had been difficulties in revaluing the assets due to the spread of pandemic in the year 2020. However, revaluation process on assets for the year 2021 has already been commenced.	Action should be taken in accordance with the Sri Lanka Accounting Standard.

1.5.2 Accounting Deficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	The difference between the cost of remaining stocks of the *Osu Sala* outlets as at 31 December 2020 and the exchange value of those stocks should be identified,	The Corporation does not possess an Information System to accurately compute the exchange value of the stocks that had remained by	The difference between the cost of remaining stocks of the *Osu Sala* outlets and the

	and that difference should be adjusted as unrealized profits. Nevertheless, cost of the remaining stocks had not been specifically identified; instead, a sum of Rs. 48.93 million equivalent to 7.42 per cent of the stocks exchange value, had been allocated as unrealized profits.	the end of the year out of the imported drugs transferred to the *Osu Sala* outlets from the main stores. The Corporation computes the stocks remaining at the end of the year by following an estimation based technique that deducts the exchange percentage from the average stocks of the *Osu Sala* outlets. That technique has been in place over several years with approval of the Audit as well. An accurate technique will be followed in due course with the implementation of new Information System.	exchange value of those stocks should be specifically identified, and that difference should be adjusted as unrealized profits.
(b)	The error of doubly accounting the 03 debit notes valued at Rs. 30. 28 million relating to the year 2018, as well as the rollback transactions on 07 debit notes valued at Rs. 10.84 million in the year 2019, should have been corrected retrospectively. Instead, the values had been adjusted to the accounts of the year under review; hence, purchase and sales accounts of the year under review had each been understated by Rs. 39.54 million whilst the service charge revenue account being understated by Rs. 1.58 million.	When taking corrective measures on a debit notes referred to the Department of Health Services, the value of the debit note is taken into consideration in deciding as to whether or not that value is adjusted to the profit of the current year. What was mentioned above is the value of 03 debit notes that had been brought to accounts at once in this year. However, the value of the said debit notes was less than 01 per cent of the total sales value.	Corrective measures should be taken on this error before preparing and presenting accounts of the year 2021.
(c)	As the Corporation had not received the invoices together with the goods received notes for medical supplies provided for the Medical Supplies Division after being purchased from 15 suppliers during several preceding years, the purchase	There exists a delay with the Medical Supplies Division in providing the relevant documents. A new methodology had been proposed and implemented by the Corporation in view of rectifying this situation with	The purchase and sales value, and the service charges should be identified correctly , thus taking action either to account or disclose them.

	and sales value that had not been brought to accounts even as at 24 March 2021, amounted to Rs. 58.68 million; and, the service charge revenue relating thereto had not been brought to accounts as well.	effect from November 2021.	
(d)	According to the information made available to the Audit, 98 items of medical supplies had been purchased from the local market due to delay in issuing the main order to the suppliers on behalf of the Medical Supplies Division during 2016 – 2020, thus incurring an additional cost of Rs. 565.40 million. Only a sum of Rs. 103.09 million therefrom had been recovered from the suppliers and brought to accounts on cash basis as at 07 October 2021, but action had not been taken either to recover from the relevant parties, account, or disclose the balance of Rs.462.30 million.	The observation is acknowledged. The responsible officers have been instructed to expedite the recovery.	The process of recovering the sum from the responsible parties should be expedited whilst taking action either to account or disclose that sum.
(e)	The medical supplies purchased from the foreign and local market in order to be sold by the Corporation during the period 2015-2020 had failed in quality, or been undersupplied with refused or damaged stocks as per the information made available to the Audit. However, action had not been taken as at 31 December 2020 either to recover from the supplier, account or disclose the sum of Rs. 92.03 million.	The losses shown under prudence, a fundamental accounting principle, can not be brought to accounts.	Action should be taken either to account or disclose the values recoverable from the suppliers.

1.5.3 Unreconciled Control Accounts

	Item	Value as per Financial Statements	Value as per Correspon ding Reports	Difference	Comment of the Management	Recommendation
		Rs. Million	Rs. Million	Rs. Million		
(a)	Cost of the medical supplies that had failed in quality as at 31 December 2020 out of the medical supplies purchased during 1996-2020 for sale through *Osu Sala* outlets.	111.84	91.61	20.23	An investigation is conducted by the Corporation in order to look into the difference of Rs. 20.23 million between the cost of the quality failed drugs and the value of the stock verification report. Further action will be taken to write off the difference once the report of the investigation is received.	Reasons attributable to the difference should be identified. The necessary adjustments should be made. And the relevant Financial Regulations should be followed.
(b)	Balance receivable from the Medical Supplies Division.	34,424	34,020	404	In order to reconcile this difference, a detailed document relating to the verified balance had been requested by the Medical Supplies Division from the relevant institution. Thus, action will be taken to look into the difference.	Reconciliation statements should be prepared with the Medical Supplies Division thus identifying the reasons attributable to the difference and taking corrective measures.

1.5.4 Lack of Documentary Evidence for Audit

	Item	Value	Audit Evidence not Made Available	Comment of the Management	Recommendation
		Rs. Million			
(a)	Balances pertaining to 447 debtors as at 31 December 2020.	138.81	Confirmation of balances.	All the debtors have been informed through post that the balances be properly verified and sent with a copy to the Audit.	Debtors' balances should be verified through certificates of confirmation of balances.
(b)	Balances pertaining to 101 trade creditors as at 31 December 2020.	267.97		Many of those balances are the ones remaining payable to the suppliers of drugs. Once funds are received from the relevant hospitals, payments will be made to the suppliers.	Balances should be verified through certificates of confirmation of balances.

1.6 Accounts Payable and Receivable

1.6.1 Funds Receivable

	Audit Observation	Comment of the Management	Recommendation
(a)	Allocations had been made since the year 2013 with respect to disputed goods in transit costing Rs. 02 million relating to the years 2007, 2008, 2009 and 2012, and Customs charges totaling Rs. 12.60 million recoverable from the Medical Supplies Division relating to a period of 05 years from 2007 to 2012. Nevertheless, action had not been taken to recover the	Action will be taken to write off the old balances in due course with approval of the Treasury.	Action should be taken to recover the sums from the relevant parties.

	sums from the Medical Supplies Division.		
(b)	Of the sum amounting to Rs.34,424.92 million receivable from the Medical Supplies Division as at 31 December 2020, a sum of Rs.211.59 million could not be settled over a period ranging from 11 to 22 years.	This situation arose due to lack of a methodology to inventory the items as they were received by the Medical Supplies Division. All those balances pertain to the years prior to 2007, and the balances thereafter have been settled. Action will be taken in due course to write off the old balances under approval of the Treasury.	Action should be taken either to settle or write off the old balances under a proper approval.
(c)	The balance in the container deposit account amounted to Rs. 16.48 million as at 31 December 2020 whereas only a sum of Rs. 4.04 million therefrom had been recovered after the date of the balance sheet. The balance which could not be settled over a period of 02-14 years amounted to Rs. 6.77 million whereas only a sum of Rs.178,984 had been recovered therefrom after the date of the balance sheet. No amount whatsoever could be recovered during the year under review out of Rs. 5.45 million relating to the period 2007-2014.	Even though the container deposit balance amounted to Rs. 16.48 million as at 31 December 2020, a sum of Rs. 4.04 million therefrom has been recovered. A sum of Rs.178,984 has been recovered out of Rs. 6.77 million that remained recoverable over a period of 02-14 years. Upon being recommended by the Public Accounts Committee, action has been taken to write off a sum of Rs. 5.76 million relating to that period. The naval institutions including the Ceylon Shipping Corporation, had given priority only for clearance activities due to the unfavorable situation prevailed in the country. As such, a delay had occurred in recovering the container deposit balance, but action will be taken in due course to expedite the process.	Recovery of container deposits should be expedited.
(d)	According to the policy adopted by the Corporation, funds should	Of the sum amounting to Rs. 13.05 million remaining	Recovery of dues should be

	be recovered from trade debtors within a period of 30-45 days since the date of sale. However, a sum of Rs. 13.05 million receivable from private, Government and semi-Government institutions that had been included in the debtor balance of Rs.1,426.07 million as at 31 December 2020, remained outstanding over a period of 05 years, whereas a sum of Rs. 39.57 million included in the said debtor balance remained outstanding over a period of 01-05 years, and only a sum of Rs. 6.23 million out of that balance had been recovered after the date of the balance sheet. Legal action had been taken only for the recovery of debtor balances totaling Rs.10.44 million included therein which had continued to exist over a period of 05 years.	recoverable over 05 years from private, Government and semi-Government institutions, the value receivable from the Government hospitals and other institutions totaled Rs. 2.29 million. Legal action has already been taken for recovering a sum of Rs. 10.44 million. The sum totaling Rs. 33.34 million remaining further recoverable over a period of 01-05 years from private and semi-Government institutions, included values receivable from hospitals, Government institutions, Parliament and private institutions as well. In order to recover the sum of Rs. 14.62 million included therein as being the value of drugs provided for Parliament, discussions had been held several times with the Speaker, Secretary to the Ministry of Health and the relevant parties, but we did not receive a satisfactory response relating to the settlement of that sum. This matter had been taken for discussion at the meeting of the COPE, and as the recovery remained questionable, a sum equivalent to the total value had been allocated as bad and doubtful debts in the year 2017.	expedited in terms of the agreement and within the specified period in accordance with the policy adopted by the Corporation.
(e)	Proper action had not been taken over a period of 05-12 years to recover Rs. 1.13 million out of the advances receivable from suppliers totaling Rs. 378.32	The provisions relating to the recoveries are being followed, and action is being taken to furnish a report on current progress to the Audit.	Advances receivable from suppliers should be recovered expeditiously

	million as at 31 December 2020 whilst a sum of Rs. 988,247 out of the claims receivable from suppliers as at that date totaling Rs. 32.35 million had remained unrecovered over a period of 02 years.		within the specified period in accordance with policies adopted and agreements entered into by the Corporation.

1.6.2 Funds Payable

	Audit Observation	Comment of the Management	Recommendation
(a)	Of the sum amounting to Rs.265.34 million being the balance in the account for accrued charges and provisions as at 31 December 2020, a sum of Rs.40.81 million equivalent to 15 per cent thereof, had remained unsettled over a period on one year.	The observed is agreed upon. The payments had been delayed due to miscellaneous reasons, but expenses payable have been thus shown as accrued expenses. Action will be taken in due course on all those payments.	Accrued expenses should be settled.
(b)	Of the sum amounting to Rs.13,887 million being the balance in the payable bank bills account as at 31 December 2020, a sum of Rs.80.50 million remained unsettled over a period of 02 years, and as only a sum of Rs.5.03 million therefrom had been settled by 30 August 2021, a balance of Rs. 75.47 million remained further unsettled. Those values comprised 100 per cent of the value of letters of credit and retention monies.	Requests will be made to minimize subsequent applications for refunds made in the wake of being credited to the revenue as stated in Financial Regulation 571 (2), thus taking action to adopt a policy to credit to the revenue after lapse of 03 years.	The balances that had not been settle to the suppliers over extensive periods, should be looked into and settled, or such balances should be credited to the revenue.

1.7 Non-compliances with Laws, Rules, Regulations and Management Decisions

	Observation: Reference to Laws, Rules and Regulations, etc.	Observation: Non-compliance	Comment of the Management	Recommendation
(a)	Section 10 (5) of the Finance Act, No. 38 of 1971.	All sums remaining out of the net surplus revenue of a public corporation in any year after the appropriations have been made shall be paid to the Consolidated Fund. However, the Corporation had not done so.	Previously, the Treasury took into consideration the financial position of the Corporation, thus informing on the dividend payable by the Corporation to the Treasury, and payments had been made based thereon. Such a request has not so far been made by the Treasury in this year.	Action should be taken in accordance with the Finance Act.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
	(i) Financial Regulations, 103, 104, and 105.	Action had not been taken in terms of Financial Regulations relating to stocks costing Rs. 121.89 million as at 31 December 2020 that had expired in the preceding year and the year under review, and the stocks costing Rs.33.43 million as at that date which had failed in quality in the preceding year and the year under review.	Not commented.	The Financial Regulations should be followed.

(ii)	Financial Regulations 135, 136, 137, 138 and 139.	Delegation of financial powers relating to the expenses, approval, certification and making payments of the Corporation, should be done in writing annually. However, delegation of financial powers had not been so done, but authority had been given only to sign the cheques.	Action will be taken in due course to prepare a suitable methodology in line with the system of control of the Corporation and in terms of Financial Regulations 135, 136, 137, 138 and 139.	- Do.
(iii)	Financial Regulation 210 (1).	It had been informed that a 05 per cent discount would be given on the value of invoices had payments been made within a period of 60 days after the suppliers providing medical supplies for the *Osu Sala* outlets of the Corporation had furnished their quotations to the Corporation. However, such payments had not been made within a period of 6o days; and hence, the amount on discounts that had been deprived with respect to 58 invoices examined in the audit test checks, totaled Rs.311,796, but action had not been	Agreed with the observation. There existed an agreement under which discounts were obtained from the suppliers. The relevant officers of the Accounts Division did not receive written or verbal instructions from the top level as to how action should be taken in that connection. At present, instructions have been given to implement a methodology in order to make payments for the invoices of those suppliers without delay.	The Financial Regulations should be followed.

		taken to recover that sum from the officers responsible. Furthermore, due to failure in obtaining the 05 per cent discount provided by the suppliers even when payments had been made to the suppliers prior to 60 days, a discount totaling Rs.36,556 had been lost with respect to 10 invoices examined in audit test checks.		
(iv)	Financial Regulation 211.	All liabilities must be noted as soon as they are incurred. Records of liabilities, such as orders placed for supplies and services, should be maintained up-to-date so that payment may be made as soon as possible after the service have been performed or supplies rendered. Where bills and claims are received, they should be checked and paid promptly. However, it had not been so done.	Agreed with the observation. Liabilities can not be noted as soon as they are incurred given the practical scenario of the Corporation. Once received by the Accounts Division, the liabilities are noted promptly. Payments are made as per the instructions received.	The Financial Regulations should be followed.
(v)	Financial Regulation 384 (3).	A Register had not been maintained to record the particulars of each	Agreed with the observation. The Financial Regulation 384 is being followed at	- Do.

		cheque book received, such as the date of receipt, the number of cheque leaves and the printed numbers relating to each book, date of issue of each book to the office for the purpose of writing cheques, the date on which the last cheque in the book was written, and the date of destruction of the counterfoils.	present.	
(vi)	Financial Regulation 388 (1).	A Register had not been maintained for cheques sent by post to record the particulars such as, date of cheque, number of cheque, bank on which it is drawn, party to whom forwarded, amount of cheque, reference to voucher number, date of dispatch, date of acknowledgement of payment, and initials of the officer responsible for dispatch.	Agreed with the observation. The Financial Regulation 388 is being followed at present. The officer issuing cheques, is maintaining the Register used to record the particulars on cheques sent by post, and that Register is being maintained up-to-date.	- Do.
(vii)	Financial Regulation 389 (b).	A written acknowledgement should be obtained of every cheque handed over, indicating the number and the amount of the cheque, whether	Agreed with the observation. When issuing cheques, the name of payee, national identity card number, signature and the voucher number mentioned with the description of the cheque,	Action should be taken in accordance with the Financial Regulations.

		crossed or uncrossed, the bank on which it is drawn, the voucher number, and date of handing over. However, such an acknowledgement had not been obtained in regard of cheques given by hand. The register used to issue cheques did not contain any of the essential information such as, payment voucher number, invoice number, and order number. Thus, it was not possible to take follow up action as to what invoice or voucher under which a cheque was issued.	are recorded in the relevant register.		
(viii)	Financial Regulation 391 (c).	Extension of validity of a cheque should be noted in red ink in the counterfoil of the cheque, against the appropriate item of the list of uncashed cheques in the Bank Reconciliation Statement of the previous month, and initialed by the officers singing the endorsement on the cheque. However, it had not been done so when extending the validity of	Agreed with the observation. The invalidated cheques are recorded in the register. Action has been taken to make notes on the counterfoils.	-	Do.

		cheques of the Corporation.		
(ix)	Financial Regulation 392 (b) (iii)	If a payee reports that a cheque has been lost, or cannot be traced, a fresh cheque in lieu thereof may be issued only after obtaining a Letter of Indemnity in the subjoined form. However, action had not been taken to obtain a Letter of Indemnity.	Agreed with the observation. In case that a Letter of Indemnity can not be obtained, the Treasury will be informed in due course in that connection, thus requesting for a directive.	Action should be taken in accordance with the Financial Regulations.
(x)	Financial Regulation 394 (b) (i).	If for any reason, a cheque has to be cancelled and no cheque in lieu is issued, particulars of cancellation should be noted on the counterfoil of the cheques and against the relevant item in the cash book. Nevertheless, it had not been so done.	Agreed with the observation. Action is being taken to record the cancelled cheques in the register and make notes on the counterfoils.	- Do.
(xi)	Financial Regulation 571.	Action had not been taken either to settle or credit to the revenue the deposits valued at Rs. 1.38 million that had remained lapsed for over 02 years as at 31 December 2020.	Requests will be made to minimize subsequent applications for refunds made in the wake of being credited to the revenue as stated in Financial Regulation 571 (2), thus taking action to adopt a policy to credit to the revenue after lapse of 03 years.	- Do.
(c)	Decision, No. 758 of the Board of Directors, dated 20 April 2020.	A sum totaling Rs.40.91 million had been paid in 07 instances to the suppliers as of 28	Action is being taken to report the Board of Directors on the progress of Committees through Papers.	Measures should be taken in compliance with the decisions of the Board of Directors.

September 2020 without being approved by the Committee that had been appointed to formalize the payments made to the suppliers with effect from 15 May 2020.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a profit of Rs. 1,969,223,517 as compared with the corresponding profit of Rs. 1,663,869,219 in the preceding year, thus observing an improvement of Rs. 305,354,298 in the financial result. This improvement had mainly been attributed by the increase in sales income by 22 per cent.

2.2 Analysis of Trends in the Main Items of Expenditure

The expenditure on bank overdrafts in the preceding year and the year under review amounted to Rs. 317,470,491 and Rs. 686,878,333 respectively. As against the preceding year, that expenditure had increased by 116 per cent in the year under review, and obtaining more bank overdrafts due to delays in receiving funds despite the increase in the number of supplies to the Medical Supplies Division, had attributed thereto.

The expenditure incurred on salaries, wages and allowances in the preceding year and the year under review, totaled Rs. 786,727,155 and Rs. 956,389,952 respectively. That expenditure had increased by 21 per cent in the year under review as against the preceding year. This had mainly been attributable to the increase of salaries, wages and allowances done through the collective agreement in the year under review.

2.3 Ratio Analysis

As compared with the preceding year, the gross profit ratio and the net profit ratio had decreased by 0.7 per cent and 0.2 per cent respectively whilst the debtors turnover ratio had shown a 0.3 fold decrease in the year under review, and the loan recovery period had increased by 22 days. Efficiency in the operations of the Corporation should be ensured with attention being drawn thereon.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	As a specific policy and a proper methodology with transparency for making payments to the suppliers had not been put in place, there existed the possibility to give priority to a certain supplier or make an adverse effect.	Agreed with the observation. Action has been taken to comply with the Financial Regulations. Authority has been delegated to all the Accountants and they have been informed in that connection.	The existing methodology should be revised to be compliant with the Financial Regulations, thus taking action to adhere to that methodology .
(b)	Forwarding of cheques to the respective officers for first and second signatures after being printed, had not been recorded. Furthermore, only one officer had been authorized for the first sign on cheques worth over Rs. 01 million. The payment vouchers had not been prepared in the order of receiving the invoices. The officers responsible for signing cheques had not signed the cheques in the order of receipt before being forwarded., and unusual delays had occurred in that process. Due to failure in signing the cheques before exceeding the validity period, cheques had to be revalidated oftentimes. As such, the number of cheques being revalidated had unusually increased during the preceding years. However, no follow up action could be taken in that connection as the reasons attributable to the revalidation of cheques had not been recorded.	- Do.	- Do.

(c)	Rs. 2,239.86 million worth debit notes had been issued as at 31 December 2020 in order to recover the costs, administrative charges, and expenses for disposal from the suppliers who had provided the Medical Supplies Division with quality failed drugs along with undersupplies. However, the Corporation had failed to recover a sum of Rs.807.48 million therefrom even up to 30 September 2021. A sum of Rs. 680.60 million included therein and remained unrecovered even as at 30 September 2021, pertained to suppliers who had been blacklisted; and hence, the recovery remained doubtful. Moreover, 14 items of medical supplies costing Rs.95.54 million and included therein had been purchased on behalf of the Medical Supplies Division for the year 2020.	Of the debit notes issued as at 31 December 2020 to the value of Rs. 2,239.86 million, debit notes valued at Rs. 24.73 million had later been cancelled. Debit notes valued at Rs. 146.92 million from the rest, had been recovered from the suppliers during the period ended 30 September 2021. The value of debit notes recoverable from the blacklisted suppliers, totaled Rs. 680.60 million as at 30 September 2021, and the legal division of the Corporation is taking legal action to recover that sum. Only a sum of Rs.95.54 million remains further recoverable from the stock value that had quality failed among the stocks purchased for the Medical Supplies Division in the year 2020.	It is necessary to expedite the recovery of cost from the suppliers relating to quality failed, damaged and shortage of drugs.
(d)	The Corporation had failed even by 30 September 2021 either to replace or recover the value of 07 items of medical supplies worth Rs. 30.64 million that had been temporarily rejected by the Medical Supplies Division and the value of Rs. 402,948 being the cost of 06 items of medical supplies that had been damaged during the year under review.	Debit notes relating to the recovery of Rs. 11.76 million from the suppliers had been forwarded in the wake of a part of stocks purchased for the Medical Supplies Division during the year 2020 had been rejected. The value of stocks, unsettled thus far, amounted to Rs. 18.86 million only. Of the stocks purchased for the Medical Supplies Division during the year 2020, a sum of Rs. 402,948 relating to the stocks rejected following damages, remained further recoverable.	It is necessary to expedite the recovery of cost from the suppliers relating to quality failed, and damaged stocks of drugs.

(e)	According to the financial statements presented, the value of drugs purchased to be sold by the Corporation that had later been found quality failed, expired, or damaged as at 01 January 2020 amounted to Rs. 116.86 million whilst the total cost of drugs that had become quality failed, expired or damaged during the year under review amounted to Rs. 103.65 million. Out of the cost totalling Rs. 33.43 million being the value of drugs that had become quality failed in the preceding year and the year under review, a sum of Rs. 16.16 million had not been recovered even by 02 November 2021. Furthermore, the loss sustained by the Corporation totaled Rs.121.89 million due to the drugs becoming expired or damaged in the preceding year and the year under review.	Not commented.	The value of quality failed drugs should be recovered from the suppliers. Reasons for drugs to become expired should be looked into thus taking remedial action, and losses should be recovered from the parties responsible for those reasons.
(f)	Six million items of Hypodermic Syringes 5ml & 10ml supplied to the Medical Supplies Division after being imported from China in the year 2005 had failed in quality, and 02 disciplinary inquiries had been held on the failure to recover the loss of Rs. 17.51 million sustained by the Corporation in that connection from the supplier within the specified period. A disciplinary order had been issued on 15 May 2019 on the then import manager after being found guilty thereof. However, the Corporation could not recover the loss even up to 30 September 2021.	A disciplinary order had been issued on 15 may 2019 to the import manager who had been found guilty in the formal disciplinary inquiry of the failure in recovering the loss of Rs. 17.51 million from the suppliers. Following the appeal made by that officer in that connection, the Board of Directors had decided to reconsider the decisions taken in the 02 formal disciplinary inquiries. The report of the subsequent investigation stated that she was found guilty of 03 of the 05 accusations whereas 02 accusations could not be proven. The accusation that	Recovery of the loss from the responsible parties should be expedited.

Audit Observation	Comment of the Management	Recommendation
	the said officer should be held accountable for the recovery of loss from the suppliers , could not be acceptable as per the evidence made available. As such, an officer of the investigation division of the Ministry of Health has been appointed to conduct a formal inquiry once again in order to determine who should be held responsible for the recovery of the loss.	

3.2 Management of Procurements

Audit Observation	Comment of the Management	Recommendation
(a) The procurement for supplying the Medical Supplies Division with 120,000 units of Dopamine Injection 200mg/5 ml had been awarded to a supplier during 2018/2019 who had been selected through international competitive bidding. The total cost of 120,000 units each costing Rs. 33.43, amounted to Rs. 4.01 million. The following observations are made on this main order.		
(i) As the main order had delayed, 12,994 units of Dopamine Injection 200 mg/5 ml each costing Rs. 940 had been purchased from the local agent of the supplier whilst 14,995 units had been purchased from another supplier of the local market by incurring a total sum of Rs. 26.31 million. The variation between the prices of main order and the local market was 2,712 per	The fact that a delay had occurred in evaluating bids can not be acceptable. The relevant file had been received by the technical division on 20 August 2018, and bids had been evaluated on 21 September 2018. Bids had been evaluated within the timeframe (04 weeks) specified in the Procurement timetable. During that period, the technical division had evaluated bids with around	Those responsible for the delay in main order should be determined, and action should be taken to recover the additional cost from the parties responsible.

	cent, but the Technical Evaluation Committee or the Procurement Committee had not drawn their attention thereon. The reasons such as, bid evaluation had not been undertaken expeditiously, leaving ample time to seek all the requisite formal approvals contrary to Guideline 7.4.1 of the Government Procurement Guidelines, and delay of the supplier, had attributed to the delay of the main order. Given that the supply had been delayed due to inefficiency of the supplier, and the purchase had to be made locally, a sum of Rs.23.23 million from the additional cost had not been recovered from the supplier in accordance with conditions of the procurement. Action had not been taken to identify the officers responsible for the delay in evaluating bids.	1,800 files, prepared evaluation reports, inspected the laboratory test reports, and performed other duties. Debit notes have been issued for recovery of the additional cost amounting to Rs. 26.31 million. The supplier has agreed in writing to pay that sum.	
(ii)	The two bidders who had submitted bids for the main procurement, had not given securities contrary to Guideline 5.3.11 (b) of the Government Procurement Guidelines.	The evaluation report was prepared by stating that both bidders had not given bid securities.	Procurements should be managed in compliance with the Government Procurement Guidelines and the amendments made thereto from time to time. Surcharges should be imposed on the parties responsible for the losses or damages sustained due to failure in doing so. A formal and

			independent inquiry should be held on this procurement thus taking further action.
(iii)	The supplier of the procurement had been informed that samples should be tested in the laboratory of the Corporation by replacing the condition that samples be tested before being shipped by an Indian laboratory approved by the Corporation. However, the supplier had expressed his discontent in that regard , but the order had been awarded.	The fact is not emphasized that tests should be done only through the laboratory of the Corporation when awarding the order; instead, it had been stated that only the pre-shipping orders be tested. As the supplier had not agreed to the proposal that tests be done by the laboratory of the Corporation, the stock was accepted after tests had been done by a laboratory acceptable to the Corporation.	The procurement procedure should be executed in a manner that the standard of drugs can be tested as required by the procurement entity whenever necessary.
(iv)	The Procurement Committee had decided to summon the bidders to revise the prices when making purchases from the local market. However, it had not been so done. Furthermore, the order had been issued on the day before the Procurement Committee had given approval. According to the conditions of the procurement, the vaccines should have a shelf life of at least 12 months at the time of being supplied to the Medical Supplies Division. Nevertheless, the shelf life of 1,200 vaccines was only 10 months.	The said decision had been taken by the then Chairman at the time of approving the procurement decision, and later, a covering approval had also been given thereon by the Procurement Committee. The Medical Supplies Division had accepted the stock despite the low shelf life.	Action should be taken in accordance with the decisions taken by the Procurement Committee whilst complying with the procurement conditions.
(b)	Having spent a sum of Rs.1.64 million, 17,700 packs of the Pioglitazone Hydrochloride		

Tablets 15 mg each comprising 10*10 tablets had been purchased whilst 66,300 packs of 5*10 had also been purchased to be sold by the Corporation for a sum of Rs.10.38 million in the year 2018. The following observations are made in this connection.		
(i.) At the time of presenting the purchase requisition on 31 October 2017, the annual sales during the preceding 12 years relating to the said drug sold in the sizes of 10*10 and 5*10, amounted to 12.232 and 63,030 respectively. By disregarding the facts that the sales of this drug in both sizes had shown a decline, and the Corporation already had a stock of 59,862 items of the drug comprising 13,000 and 46,862 units of the sizes 10*10 and 5*10 respectively, action had been taken to further order 36,000 units of the drug in the size of 10*10 and 48,000 units in the size of 5*10. Furthermore, the order should have been supplied within a period of 06 months, but 69.5 per cent of the entire order had been received by the Corporation within a period of 2 ½ months. Hence, 10,353 units of the drug in the size of 5*10 costing Rs.1.61 million had become expired in the year under	Not commented.	Parties responsible for the loss should be identified, and the recovery should be done.

	review. Additionally, 8,914 units of the size 5*10 costing Rs. 1.38 million had also been issued as bonus.		
(ii.)	Although the registration certificate of the National Medicines Regulatory Authority for the drug had not been presented, 60 per cent of the entire order had been awarded to the first lowest bidder who had failed to furnish the registration certificate (PCA 03) issued under Public Contracts Act, No. 03 of 1987. Furthermore, without taking action to obtain approval of the Corporation for the label of the drug in terms of the letter for awarding the contract, the first stock of drugs comprising 17,000 units of the size 10*10 had been accepted by the Corporation under a label not approved by the Corporation.	Not commented.	The Acts and agreements governing the procurement process should be adhered to.
(c)	A number of 7,000 units of the vaccine, Epoetin Injection 1,000IU/Vial pre- filled syringes (Recombinant Human Erythropoietin BP) which was a requirement for the year 2018 , were purchased by the Medical Supplies Division at an estimated cost of Rs. 2,450,000. The following observations are made in that connection.		
(i)	Procurements made by following the international competitive bidding should	Bids had to be called for several times due to lack of bids being submitted. As	Procurement management should be done in

	be completed within a period of 08 weeks in terms of Supplementary, No. 31 to Guideline 4.2.3 of the Government Procurement Guidelines, but the said procurement had taken 02 years for completion. The contract value relating to this procurement amounted to Rs. 43.46 million equivalent to US $ 243,530, but due to the procurement process taking 02 years for completion, value of a Dollar per Rupee had changed; and hence, a sum of Rs. 44.64 million equivalent to US $ 243,530 had to be paid to the supplier. As such, a sum of Rs. 1.18 million had been paid additionally.	such, the said delay was unavoidable and beyond scope of the Corporation. The difference mentioned in the value was attributed by the changes in exchange rates.	compliance with the Government Procurement Guidelines and the amendments made thereto from time to time.
(ii)	According to the purchase requisition submitted to the Corporation by the Medical Supplies Division in order to purchase 7,000 units of the Epoetin Injection 1000IU/Vial pre-filled syringes for the year 2018, the cost estimated for one unit of that vaccine amounted to Rs.350. However, without drawing attention on the difference of 1674 per cent between the estimated cost and the order cost, the order had been placed at a total value of Rs. 43.46 million to purchase 7,000 units each costing Rs.6,208.72.	What is shown as the estimated cost is the value mentioned by the Medical Supplies Division. Bids similar in value to that price had not been received in certain instances. Bids had been called thrice for this procurement, and the order had been placed for the only bid acceptable. Had this drug, being an essential medicine, not been purchased at that price, scarcity of the drug would not have been avoidable.	The Technical Evaluation Committee and the Procurement Committee should draw their attention on the estimated prices and bidding prices of the medical supplies to be procured.

(iii)	Epoetin Injection 1,000IU, 2,000IU, 4,000IU, 5,000IU and 10,000IU/Vial pre-filled syringe represent the same vaccine in different dosages. As had been required by the Medical Supplies Division for the years 2018 and 2019, vaccines of the dosage 2,000 ICU had been purchased at US $ 0.9 each whilst vaccines of the dosage 10,000 IU had been purchased each costing US $ 5.5 in addition to the one with 1,000 IU. A comparison of the unit cost at which the said vaccines had been purchased, revealed that the unit cost of US $ 34.79 at which the Corporation had purchased Epoetin Injection 1,000IU, was an unusual price.	It is this procurement in which this dosage had first been purchased. Prices of drugs can not be compared solely on the amount of dosage, and that varies depending on the amount of order and differences in manufacturing process.	- Do.
(iv)	Action had not been taken in terms of Section 10 of the Contract Agreement either to encash the performance surety before being expired, or recover penalties for delay amounting to US $ 8,523.55 equivalent to 1.56 million in regard of the 42 day delay in the supply of drugs.	Time had to be spent on intermediary steps to be taken on confirmation of the order, after the date of issuing the initial order. Penalties for delay had not been charged as the supply had been made within the period of the letter of credit which had been issued from the confirmation date of the order.	Action should be taken in accordance with conditions of the agreement.
(v)	As per the purchase order for the year 2018, the supplier had been informed that 7,000 units of the drug, Epoetin Injection 1000IU be supplied to the Medical Supplies Division as soon as possible. It had	The delay had occurred due to reasons beyond scope of the Corporation. The Corporation had handed over the stock to the Medical Supplies Division on 11 February 2020. It is the Medical Supplies Division	A formal and independent inquiry should be held on this procurement thus taking further action.

	been informed through the letter issued by the Director of Medical Supplies Division that the said stock of vaccines had been urgent. Estimates for 3,000 units of this vaccine had been presented for the year 2018 by the District General Hospital, Hambanthota, and Colombo South Teaching Hospital. However, at least one unit of that vaccine had not been obtained by those hospitals from the Medical Supplies Division up to the date of audit on 06 July 2020. Furthermore, 1,388 units had been distributed including 906 units to 10 hospitals which had not presented estimates, but a stock of 5,612 vaccines had remained by the date of audit on 16 July 2020. Hence, it could not be verified that there was an urgent requirement for this drug.	that is responsible for the process of distribution and control of stocks, and the Corporation is not responsible therefor.	
(vi)	The Lady Ridgeway Hospital for Children had requested the Medical Supplies Division for 100 and 200 units of the vaccine, Epoetin Injection 1000IU, for the years 2018 and 2019 respectively. Nevertheless, at least one vaccine had not been obtained even by 01 July 2020. The Epoetin Injection 1000IU, once included in the estimate of drugs in the year 2017, had been ordered in small	- Do.	A formal and independent inquiry should be held on this procurement thus taking further action.

	quantities though, the vaccine had not been obtained from the Medical Supplies Division as the drug had not been essentially necessary – the relevant officers of the Hospital confirmed.			
(vii)	According to Section 109 of the National Medicines Regulatory Authority Act, No. 05 of 2015, the Authority may grant permission in special circumstances such as to save a life, to control an outbreak of an infection or an epidemic or any other national emergency or for national security to import and supply a particular medicine, medical device or borderline product in specified quantities. As the supplier to whom the order for supplying Epoetin Injection 1,000IU/Vialpre-filled syringe was awarded as per requirements of the year 2018, had not been registered with the National Medicines Regulatory Authority, the Authority was requested by the Corporation on 21 June 2019 that a waiver of registration – WOR be issued to that supplier enabling him to import and supply those drugs. Nevertheless, the emergency, necessity, or national requirement for which the vaccines had to be imported, was not disclosed.	It is the Medical Supplies Division that decides on the necessity of all the drugs including this one. Accordingly, request for WOR was made in accordance with instructions and requests received from the Medical Supplies Division.	-	Do.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Management	Recommendation
The combined Corporate Plan and the Action Plan had not been prepared for the year 2020.	Not commented.	Those Plans should be prepared.