The State Pharmaceuticals Manufacturing Corporation of Sri Lanka – 2010

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the State Pharmaceuticals Manufacturing Corporation of Sri Lanka had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the State Pharmaceuticals Manufacturing Corporation of Sri Lanka as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

The short term investment valued at Rs.173,452,035 to be shown as current assets in the balance sheet as per Sri Lanka Accounting Standard 3 had been shown as non current assets.

1:2:2 Accounting Deficiencies

The following observations are made.

(a) The value of Provision for Purchase of Spare Parts Account shown under the trade creditors had been overstated by Rs.219,549.

(b) The following deficiencies were in the Cash Flow Statement.

(i) The income tax paid for the year under review as shown in the Cash Flow Statement amounted to Rs.62,571,066. However, the actual payment was Rs.62,381,313.

(ii) The short term investments made during the year amounting to Rs.3,473,008,635 and the value of investments withdrawn during the year amounting to Rs.3,431,273,592 had not been shown separately.

(c) The economic services fees of Rs.3,608,104 payable for the year under review had not been shown separately in the financial statements. Instead, it had been included in the value pertaining to Creditor Control General.

(d) Instead of writing off the value of two pharmaceuticals amounting to Rs.224,212, the period of validity of which had expired, it had been shown under sales cost. As a result, the cost of sales had been over valued.

1:2:3 Accounts Receivable

The amount due from the Director of Health Services and the pharmaceutical sellers were Rs.880,332 and Rs.64,487 respectively. Though a period of 7 years had elapsed, it had not been recovered up to end of the year under review.

1:2:4 Lack of Evidence for Audit

The title deeds and lease bonds of the leasehold land valued at Rs.5,748,845, the file pertaining to case No. CAWRI 2009/2007, information relating to the Adjustment Account valued at Rs.13,700,573, journal vouchers etc., had not been furnished. As a result, these items could not be satisfactorily vouched or accepted in audit.

1:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non compliance observed in audit are shown below.

	Reference to Laws, Rules, Regulations and Management Decisions	Details
(a)	Public Finance Circular No.PF/PE/6 dated 31 January 2000	The pay as you earn tax should be recovered from the employees. However, a sum of Rs.1,279,741 had been paid from the funds of the Corporation.
(b)	President's Circular No.CSA/P1/40 dated 4 January 2006	The value of vehicles that could be purchased on behalf of other officers who are entitled for vehicles is Rs.2,500,000. However, the Corporation had purchased a Micro vehicle valued at Rs.2,940,000 exceeding this value by Rs.440,000.
(c)	Management Services Circular No.34(i) of 1 June 2009	Approval of the Department of Management Services is required for increasing the allowances of employees of Corporations and Boards. Contrary to it, combined allowances had been paid as shown below.

Allowances entitled as per circular	Allowances paid as per approval of the board of directors
Rs.	Rs.
350	700
400	800
500	1,000

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Results

According to the financial statements presented, the net profit caused by the operating activities of the Corporation, before tax, amounted to Rs.292,317,025 and it showed an increase of Rs.140,489,063 as compared with the net profit, before tax, of the Corporation pertaining to the previous year which amounted to Rs.151,827,962. However, the Corporation had obtained a net profit of Rs.261,564,427 during the year under review before taking into consideration the non operating income of Rs.30,752,598 including the interest income of the Treasury Bonds amounting to Rs.30,080,514. The net profit was Rs.118,348,934 before taking into consideration the non operating income of Rs.33,479,027 of the previous year showing an improvement in net profit by Rs.143,215,493. The increase of Rs.128,635,106 in gross profit of the year under review and the decrease in other operating expenses amounting to Rs.20,982,203 had attributed to this improvement.

2:2 Operating Review

2:2:1 Sales Activities

The sale of tablets and capsules of the year under review and the previous year are shown below.

	2010		2009	
	Units (Mn)	Rs. (Mn)	Units (Mn)	Rs. (Mn)
State Pharmaceuticals Corporation	77.685	57.874	47.310	33.619
Director of Health Services	967.262	868.828	601.149	732.138
Distributors	528.170	439.610	469.478	363.341
Exports	40.991	13.339	66.180	23.586
	1,614,108	1,379,652	1,184,117	1,152,684

The following observations are made.

(i) Accordingly, the units of pharmaceuticals sold during the year under review increased by 36.31% compared to the previous year

(ii) The sales during 2010 had increased by 19.69 % compared to the previous year. Out of the total sales, 62.97% had been made to the Director of Health Services. Further, the increase in prices of five pharmaceuticals ranged from 05% to 41%.

(iii) During the year under review the sale of exports had decreased.

(iv) While fixing the prices of pharmaceuticals, top priority should be given to Medical Supplies Division at concessionary prices. But, the Corporation had sold pharmaceuticals to distributors at low prices by allowing various concessionary discounts to them rather than the Medicals Supplies Division.

(v) Prices of pharmaceuticals sold to the medical supplies division were much higher than what were sold to the private sector in that Paracetamol had been sold at a profit margin of 41% and 36.04% respectively under the prices pertaining to the years 2009 and 2010 and Metformine had been sold at a higher profit margin of 21.2 % under the price pertaining to the year 2010.

(vi) The prices of pharmaceuticals fixed to the Medical Supplies Division had been fixed with an interest ranging from 5% to 10 % with the approval of the pricing committee, considering the delay in payment together with a profit margin of 5%.

(vii) Of the orders presented by the Medical Supplies Division to the State Pharmaceuticals Manufacturing Corporation, 299.54 million units of the entire 571.50 million units pertaining to the year 2009 and 528.587 million units of the entire 885.8 million units pertaining to the year 2010 had further to be supplied.

2:2:2 Production Activities

The position relating to production during the period 2006 to 2010 is shown below.

Year	Production (Units – Mn)	Percentage of variation of production compared to the previous year %	No. of shifts
2006	752.93	-	01
2007	1,025.69	36.27	02
2008	1,032.55	0.66	02
2009	1,195.20	15.75	02
2010	1,614.11	35.04	02

An improvement of 35.04 % in production is shown during the year under review, compared to the previous year.

2:3 Performance

(i) The annual production of all types of pharmaceuticals during 2005 to 2010, does not show an increase as shown below.

Year	Number of types of pharmaceuticals produced as per information of the production division
2006	47
2007	43
2008	39
2009	38
2010	38

(ii) Obtaining ISO9000 – 2000 status

ISO status had not been granted to the Corporation even by end of the year under review.

2:4 Identified Losses

The following observations are made.

(a) Stock of raw materials valued at Rs.353,862 had been rejected due to the expiry of period

(b) The value of rejected stock of packing materials had been Rs.157,685

(c) The value of rejected stock of finished goods had been Rs.463,119

(d) The value of rejected work-in-progress had been Rs.481,299.

2:5 Fruitless Transactions

It was observed that the transactions of the Corporation relating to stock control had not been properly accounted through the Enterprises Resources Planning System Computer software installed at the Corporation by spending Rs.13,744,174

2:6 Budgetary Control

The budget had not been used as an effective instrument of management control as significant variations were observed between the budgeted and actual income and expenditure.

3. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

(i) Stock of lapsed pharmaceuticals

(ii) Vehicle utilization

(iii) Usage of accounting computer software