State Pharmaceuticals 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 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 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 Non-compliance with Accounting Standards (SLAS)

The following non compliances with the Sri Lanka Accounting Standards were observed in audit.

Reference to Sri Lanka Accounting Standards	Non-compliance
(a) S.L.A.S. 03	The stocks to be cleared by the Medical Supplies Division as per balance sheet amounted to Rs.285,911,177. However, rejected stocks amounting to Rs.157,543,987 and unsalable stocks amounting to Rs.12,011,582 had been included in this. Adequate provision too had not been made in this connection. As a result, the year's profit showed an incorrect value.

(b) S.L.A.S 05 — Action should be taken to dispose of, the damaged stocks with proper approval. However, low quality medicines valued at Rs.23,735,955 had been included in the stock as assets.

(c) S.L.A.S. 16 — The method indicated in Paragraph 57 of the standard had not been followed while calculating the liability for retirement benefits, payable.

1:2:2 Accounting Policies

Provision for doubtful debts at 100% should have been made for debtors' balances of state institutions which had lapsed a period of over 5 years. But, provision for doubtful debts at 100% had been made for the debtors' balances of over 1 year for all State Institutions, except the Medical Supplies Division.

1:2:3 Accounting Deficiencies

The following observations are made.

(a) Understatements

(i) The income from laboratory research had been understated by Rs.806,684.

(ii) The income from Suppliers' Association had been understated by Rs.157,904.

(b) Overstatements

The pay-as-you earn tax payable for the year under review amounting to Rs.220,676 had not been accounted for. As a result, the year's profit had been overstated by a similar amount.

1:2:4 Accounts Receivable

The following matters were observed.

(a) The balance of the Trade Debtors Account as at end of the year under review amounted to Rs.360,312,058. Of these, loan balances exceeding 5 years, 2 years and the loan balances ranging from 1 to 2 years respectively amounted to Rs.7,345,024, Rs.9,209,552 and Rs.14,124,677.

(b) The total loan balances receivable from the Director General of Health Services as at end of the year under review amounted to Rs.3,069,278,485. Of these, loan balances exceeding 5 years and 2 years' respectively amounted to Rs.114,944,359 and Rs.621,917,910.

1:2:5 Lack of Evidence for Audit

As there was no detailed schedule regarding unsalable stocks valued at Rs.12,011,582, it could not be satisfactorily verified in audit.

1:2:6 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non compliance with laws, rules, regulations etc. were observed in audit.

	Reference to Laws, Rules, Regulations etc.	Non-compliance
(i)	Public Finance Circular No.PF/PB/6 dated 31 January 2000	The pay-as-you-earn tax of Rs.4,825,555 of the year under review had been incurred from the Corporation's fund instead of being recovered from the employees.

(ii)	Section 15.6 of the Value Added Tax No.14 of 2002	The input tax included in the supply of goods and services had been added to the expenditure concerned. As a result, the expenditure had been overstated by R.186,726.
(iii)	Procurement Guidelines of the National Procurement Institute No.NPV09 dated 01 March 2006. --------------------------------------	
	Section 2:8:4	A Technical Evaluation Committee had not been appointed for the departmental tender board. However, the Chairman had informed that the technical division of the Corporation acts as an evaluation committee.
	Section 6:3:6	Activities relating to opening of bids should be entered in the respective specimen form. The members of the committee opening the bids had not signed those reports.
	Section 2:9:1	Payments amounting to Rs.3,000 and Rs.2,000 respectively could be made for members of the Procurement Committee over 5 million and less than 25 million. However, payments at the rate of Rs.15,000 to Rs.17,500 for the Chairman and Rs.10,000 to Rs.12,500 for Committee Members had been made. Though the Chairman had stated that the approval from the Secretary to the Ministry had been obtained, the requirements for approval of payments had not been followed.

(iv) Public Administration Circular No.41/90 dated 10 October 1990

Paragraph 2:11	Consumption of fuel of vehicles had not been tested once in 6 months.
Paragraph 3:12	Tenders or quotations had not been called for external repairs of vehicles.
F.R. 104	Proper inquiries had not been held with regard to accidents to vehicles so as to make a decision about the officer responsible.
(v) Establishments Code Chapter II Section 13.3	Nine officers of the Corporation had carried out duties on an acting basis for over 1 year.

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Results

(a) According to the accounts presented, the Corporation had earned a pre tax net profit of Rs.483,774,625 for the year ended 31 December 2010 as compared with the pre tax net profit of Rs.401,187,457 of the previous year making an improvement in net profit by Rs.82,587,168. The increase in gross profit amounting to Rs.167,813,669 had attributed to this.

(b) The position relating to profits and losses of Osusalas during the year under review and the past 4 years are shown below.

	2010	2009	2008	2007	2006
No. of Osusals in Operation	25	23	21	20	20
Total Profit Earned (Rs. Million)	96.624	97.378	44.214	54.805	62.154
No. of Osusala running at a loss	06	04	10	08	06
Total Loss (Rs. Million)	7.016	3.800	9.160	12.461	5.977

(c) The activities of Osusalas were checked and it showed an adverse situation in 2010 compared to the year 2009. Osusalas running at a loss had increased from 4 to 6. The highest loss was at the Badulla Osusala. Though sales had increased by 8.8%, the profit had decreased by 4.98 %, compared to the previous year.

(d) Cash fraud amounting to Rs.3,863,610 had occurred at the Negambo Osusala during the year under review.

2:2 Operating Review

2:2:1 Operating Inefficiencies

The following observations are made.

(a) Testing of samples needed for purchase of 1750 units of Chlorpromazine Tablets valued at Rs.924,000 had been delayed for about 2 months and the quality was poor. However, by then 1435 units valued at Rs.757,680 had already been issued to patients.

(b) According to the Cabinet Decision dated 20 May 2010, a sum of Rs.450 million had been given for purchasing urgent necessary life saving drugs. During the process, indents had not been placed for 16 essential items. Six items of drugs which had not been listed as essential and which were valued at Rs.30,871,760 had been purchased and there was long delay in the supply of 18 items. Further, the drugs purchased were valued at Rs.262 million. These could have been purchased for Rs.86 million under normal conditions. In this connection, the Chairman had informed that the reasons for this was beyond the control of the administration of the Corporation.

(c) Obsolete, low quality and spoilt drugs in 26 Osusalas were valued at Rs.1,313,299. Local purchases amounting to Rs.282,697 also had been included in this.

(d) A sum of Rs.1,344,000 had been paid to an external institution as stores rent for storing drugs. A stock of rejected drugs valued at Rs.243,603,699 too had been kept in the stores.

(e) Drugs and surgical equipment imported for supply to the Director General of Health Services and for sales activities of the Corporation had not been cleared from the port on the due dates. A a result, port demurrages amounting to Rs.17,447,647 Rs.15,753,859, Rs.29,983,137 and Rs.32,471,530 respectively had been paid during the years 2007, 2008, 2009 and 2010.

2:2:2 Identified Losses

The following observations are made.

(a) Cotton wool rolls valued at Rs.3,336,074 had been rejected by the Medical Supplies Division as it had not been supplied at the required time.

(b) Out of the 18,000 units of Ferrous Sulphate purchased, 13,347 units were low in quality. Out of its value of Rs.5,073,600, a sum of Rs.4,095,697 had not been recovered from the supplier.

(c) Purchase of Cephalexim Capsules – BP 500 mg

Based on the status control report of drugs belonging to KS 861 group, drugs belonging to another group known as KS926 had been negligently purchased. 2,00 units of such drugs purchased were valued at Rs.1,126,055. Of these , 99.75 % had been issued to patients.

(d) Promethazine Oral 500 mg

Laboratory tests had confirmed that 17,947 vials of Promethazine Oral 500 mg valued at Rs.864,866 were of poor quality. However, action had not been taken to recover the value of the drugs from the supplier. Of these, 4886 vials had been issued to patients.

(e) During the year under review, obsolete, damaged and poor quality drugs valued at Rs.20,781,594 had been destroyed.

2:2:3 Transactions of a Contentious Nature

(a) The minimum price had not been taken into consideration while purchasing drugs with there medical names. Drugs had been purchased at a higher price under the trade name as recommended by a specialized medical practitioner. As a result, the Corporation had spent Rs.16,053,568 in excess.

(b) Examinations confirmed that there were broken glasses in 2,900,000 units of Cefuroxim Sodium Injection purchased for Rs.102,181,043. At this stage, 2,852,499 units had been issued to patients. Action had not been taken to recover the sum of Rs.1,822,163 pertaining to 47,591 units from the suppliers

(c) The Medical Supplies Division had applied for 36,000 Promethazine Oral 500 mg packs. But that was not taken into consideration. Instead, it was decided to purchase 70,000 vials on the recommendations of the DGM (Marketing). Further, 29,691 units had been obtained on that order of which 17,947 units valued at Rs.864,666 were confirmed poor in quality.

(d) Out of the 1,250,000 vials of Cefotaxime Bp/Usp 1 g, 296200 vials valued at Rs.6,529,137 were of poor quality. As such, the Medical Supplies Division had directed to remove them from the market.

2:2:4 Budgetary Control

It was observed that the budget had not been used as an effective instrument of management control as there were significant variances between the budget and actual expenditure.

3. Systems and Controls

Deficiencies 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.

(a) Purchase and Supply of Drugs
(b) Constructions
(c) Personnel Management
(d) Debtors' Control
(e) Stock Control