

State Pharmaceutical Corporation of Sri Lanka – 2018

1.1 Qualified Opinion

The audit of the financial statements of the State Pharmaceutical Corporation of Sri Lanka (“Corporation”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 the 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 2018, 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
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(a) According to the paragraph 91 of the Sri Lanka Financial Reporting Standard 13, necessary information for measuring the fair value of the assets and liabilities on the basis of recurring or non- recurring had not been disclosed by the Corporation.	There were no non recurrent assets maintained for sale belonged to the institute, detailed disclosures i.e. initial recognition, valuation method and measures in connection with financial assets on the basis of recurring had been done in the financial statements.	Actions should be taken as per the Sri Lanka Financial Reporting Standard.

- (b) 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 2018, the credit balances of the trade debtor accounts amounting to Rs.2,590,505 against to the debit balances amounting to Rs.878,860,394 as at that date, credit balance of the goods in transit account in favor of the Director of Health Services amounting to Rs.2,703,133 against to debit balances of Rs.253,016,979 as at that date and debit balances of the payable agency commission account amounting to Rs.6,610,270 against to the credit balances of Rs.60,011,028 as at that date had been set off and shown in the accounts. Further actions had not been taken to search and settle the credit balances of the trade debtor's account and goods in transit account and the debit balance of the agency commission account.
- Debit and credit balances remained only in the same accounts were setoff
- Actions should be taken as per the Sri Lanka Accounting Standard.
- (c) According to the paragraph 30 and 31 of the Sri Lanka Accounting Standard 8, when an entity has not applied a new Sri Lanka Financial Reporting Standard (SLFRS), that has been issued but is not effective, the entity should disclose this fact and known or reasonably estimable information relevant to assessing the possible impact that application of the new SLFRS will have on the entity's financial statements in the period of initial application. However accounting policies for new or amended standards (e.g. SLFRS 16 lease rent) that has been issued but is not yet effective had not been disclosed by the Corporation.
- The land obtained on lease that the Ratmalana stores located was recognized and accordingly it was taken into accounts.
- Actions should be taken as per the Sri Lanka Accounting Standard.

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| <p>(d) According to the paragraph 17 of the Sri Lanka Accounting Standard 10, the date authorized to issue financial statements and the authority to amend the financial statements after issuing had not been disclosed.</p> | <p>The authority for issuing and revising financial statements is vested by the Board of Directors. This authority was mentioned in the balance sheet of the financial statements and authority for issuing financial statements, the date submitted to audit and the authority for revision will be disclosed with the annual report.</p> | <p>Actions should be taken as per the Sri Lanka Accounting Standard.</p> |
| <p>(e) According to the paragraph 81 of the Sri Lanka Accounting Standard 12, details of each type of temporary differences relating to unused tax losses and unused tax credits in connection with tax liabilities of the financial position statement for each period of time had not been disclosed.</p> | <p>(g) A summary submitted by a private audit institution was presented and actions will be taken to submit in detail in future.</p> | <p>-do-</p> |
| <p>(f) According to the paragraph 55 of the Sri Lanka Accounting Standard 16, depreciation of an asset should be begun when it is available for use. However the accounting policy applied by the Corporation for depreciation had not been complied with the provisions of the relevant standard and was not completed and the time which depreciation begins had not been disclosed.</p> | <p>When carrying out board of survey at the end of the year, special attention will be paid for calculation of life time of assets and adjustments will be made where necessary. The basis for depreciation of assets was clearly mentioned under the accounting policies 4.1.3, Depreciation of assets is commenced when the consumption of the said asset is commenced, There were assets which were not depreciated in such way, Hence it could not be accepted that the accounting policy was not complied with the Accounting Standard 16.</p> | <p>Actions should be taken as per the Sri Lanka Accounting Standard.</p> |

1.5.2 Accounting Deficiencies

Audit Issue	Management comment	Recommendation
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(a) Cost of stock of drugs amounting to Rs.4,080,000 of which debit notes had been issued and handed over to the Medical Supplies Division as at 31 December 2018 had not been transferred from the goods in transit account to the payable bank bills account.	Out of 2 invoices one was not received. Hence it could not be transferred from the goods in transit account to the payable bills account.	Financial statements should be presented to audit in the coming year after rectifying the said error.
(b) Income of interests of Treasury bills relating to the year under review had been understated by Rs.222,180 in the accounts.	Actions to be taken to correct this error when preparing accounts for the year 2019.	-do-
(c) Value of Treasury bills reinvested during the year under review had been understated in the accounts by Rs.300,377.	Actions to be taken to correct this error when preparing accounts for the year 2019.	-do-
(d) Balance stock of the packing material as at 31 December 2018 had been understated in the accounts by Rs.299,642.	This error was occurred in calculation of Value Added Tax and actions will be taken to avoid such errors in future.	-do-
(e) The income of building rent received for the year under review amounting to Rs.531,025 had been taken into accounts considering as sales income.	Rent income of a part of the building of Rathnapura Osusala outlet is considered as a part of the income of Osusala and total depreciation of the building is considered as an expenditure of the Osusala and it is difficult to identify the depreciation of the building separately.	-do-

1.5.3 Unreconciled Control Accounts or Records

Item	Amount as per the financial statements	Amount as per the subsidiary records	Difference	Management comments	Recommendation
	Rs. million	Rs. million	Rs. million		
Debts receivable from the Medical Supplies Division.	16,999	16,787	212	Actions are being taken to write off with the approval of the Treasury and Board of Directors	Necessary adjustments should be made in the financial statements after identifying the reasons for the difference.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount	Audit evidence not supplied	Management comment	Recommendation
	Rs. million			
(a) 176 balances of trade creditors	1,915	Balance confirmations	For the time being the unsettled balance of trade creditors was Rs.834 million only.	Balance confirmations should be submitted to audit.
(b) As at 31 December 2017 ;		Basis for calculation	Not commented.	Schedules for provisions of doubtful debtors and information for the basis of calculation should be presented to audit.
- Provision for doubtful debts for the debtors of the Corporation	55			
- Provision for doubtful debts for the Medical Supplies Division	2,419			

1.5.5 Receivable Accounts

Audit Issue -----	Management comment -----	Recommendation -----
(a) Out of the receivable balance of Rs.16,998,983,680 from the Medical Supplies Division, a sum of Rs.211,591,893 was remained over a period of 9 years to 20 years.	Actions are being taken to write off with the approval of the Treasury and Board of Directors.	Actions should be taken to settle or write off the old debt balances with a proper approval.
(b) The recovering policy for trade debtors of the Corporation was recovery within a period of 30 days to 45 days from the date of sale. However out of the balance of Rs.878,860,394 as at 31 December 2018, the Corporation had failed to recover a sum of Rs.12,408,417 from the Government and semi government institutions since a period of more than 5 years , a sum of Rs.14,621,371 from the Parliament of Sri Lanka since a period more than one year. Out of that , legal actions had been taken only to recover a sum of Rs.3,138,783.	Out of the debtor balance as at 31 December 2018, the outstanding balance as at 31 March 2019 was Rs.210,346,536. Although discussions were carried out with relevant parties to recover the balance of Rs.14,621,371 included in the above balance which should be recovered from the Parliament of Sri Lanka, a reply which can be satisfied was not received. A provision for bad and doubtful debts was made for the said full amount. Legal actions were taken to recover the outstanding balance of Rs.12,408,417 which exceeded 5 years.	Recovering of debts as per the agreements and within the due period of time as per the policy of the Corporation should get efficient.
(c) The receivable insurance compensation as at 31 December 2018 was Rs.2,279,937 and out of that, the Corporation had failed to recover a sum of Rs.365,556 since a period of 2 years to 9 years.	Out of the receivable insurance compensation of Rs.2,279,937 as at 31 December 2018, a sum of Rs.198,671 was settled as at 30 April 2019, A sum of Rs.1,607,828 receivable for destroyed stocks as insurance compensation was included in it, All documents relating to the claim of Rs.365,556 for a period of 2 to 9 years were sent to the insurance institution and claims are to be received.	Recovering of insurance compensation should be accelerated.

(d)	The balance of the container deposit account as at 31 December 2018 was Rs.11,848,455 and out of that, the Corporation had failed to recover a sum of Rs.6,219,806 since a period of 2 years to 11 years.	The value of receivable container deposits as at 31 December 2018 had reduced up to Rs.9,479,455 as at 30 April 2019, out of that, a sum of Rs.5,764,322 belonged to a period of 2 years to 11 years is scheduled to be referred to the Treasury on the recommendation of the Committee on Public Enterprises and the approval of the Board of Directors. Out of the rest of the receivable amount, a sum of Rs.2,704,000 is scheduled to be recovered from the Ceylon Shipping Corporation and actions are being taken to recover the balance of Rs.1,011,133 from the suppliers.	Recovering of container deposits should be accelerated.
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1.5.6 Payable Accounts

Audit Issue -----	Management comment -----	Recommendation -----
The balance of the payable bank bills account as at 31 December 2018 was Rs.6,995,499,499. This balance was consisted with a sum of Rs.1,195,759 older than 4 years period, Rs.27,673,516 older than 3 years period and Rs.76,784,033 older than 2 years period. Those balances represented the value of letter of credit of which 100 per cent had not been paid to suppliers and the retention money.	Balances of which the payments were suspended due to various reasons were included in the payable bill account, The accounting policy is that payable bills over than 3 years are to be settled or recognized as an income. The remaining balance represents the balances which should be paid or settled in future.	Actions should be taken to search and settle or credit to the income.

1.5.7 Advances

Audit Issue -----	Management comment -----	Recommendation -----
Advances of Rs.1,237,753 issued to suppliers during the period from the year 2007 and to the year 2015 and Rs.96,600 issued to the Commissioner General of Examination during the year under review had not been settled even up to 07 May 2019.	Actions to be taken to write off a sum of Rs.1,237,753 with the approval of Board of Directors because those suppliers are not dealing with the Corporation and to settle the sum of Rs.96,600 paid to the Commissioner General of Examination.	Advances should be issued on an adequate security and advances should be settled as soon as the job complete.

1.6 Non- compliance with laws Rules Regulations etc.

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	❖ The total cost of the stock of expired medical supplies in the preceding year and in the year under review was Rs.123,610,942. Actions had not been taken to carry out investigations and to determine the parties responsible and to recover the loss as per the Financial Regulations.	Out of the value of expired stock of drugs in the preceding year and the year under review amounting to Rs.107 million, a sum of Rs.20.7 million was settled, Every possible effort to be taken to settle the balance.	Actions should be taken as per the Financial Regulations.

<p>❖ Nine vehicles belonged to the Corporation had met with 12 accidents during the year under review. Out of that, the total loss of 06 accidents and a part of the loss of 05 accidents had been reimbursed by the Insurance Company. Nevertheless actions had not been taken to carry out preliminary investigations and full investigation and to fix the responsibility and to submit such reports to the relevant parties as per the Financial Regulations</p>	<p>The full amount of the loss relating to 06 accidents and a part of the loss relating to 05 accidents had been paid by the Insurance Company; Actions are being taken to recover the rest and to fix the responsibility.</p>	<p>Actions should be taken as per the Financial Regulations.</p>
<p>(ii) Financial Regulation 571 (2)</p>	<p>Actions had not been taken to settle the overdue deposits of Rs.8,512,448 remained as at 31 December 2018 or credited to the Government revenue. Further accounting policy relating to the deposits had not been disclosed in the financial statements.</p>	<p>Payable tender -do- deposits and deposits for bank securities should be refunded when the suppliers request and in general, deposits more than 5 years are taken to accounts as income.</p>
<p>(iii) Financial Regulation 757 (2) (a)</p>	<p>Reports of Board of Surveys which should be carried out as at 31 December 2018 had not been submitted to the Auditor General even up to 10 May 2019.</p>	<p>Stock verifications of all Rajya Osusal and Rathmalana stores complex were completed , stock verifications of the Head Office is being carried out , said reports will be submitted in the next year without delay. Actions should be taken as per the Financial Regulation.</p>

(iv) Financial Regulation 770 (2)	According to the Board of Survey Reports as at 31 December 2017, 54 inventory items at a cost of Rs.1,718,850 had got damaged. Actions had not been taken to appoint a Board of Survey and identify the items which cannot be taken into use and to destroy or sale.	Agreed with the observation. Actions relating to destroy or sale the items identified were commenced for the time being.	-do-
(b) Public Finance Circular No. 02/2015 dated 10 July 2015	Actions had not been taken to assess the value of 4 vehicles belonged to the Corporation which were not in the running condition and to be disposed.	Assessment reports were obtained from an independent institution for the 4 vehicles and it was referred to the Department Procurement Committee for further actions of 3 vehicles.	Actions should be taken as per the Circulars

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs.953,149,764 and the corresponding profit for the preceding year amounted to Rs.1,089,431,741. Therefore a deterioration amounting to Rs.136,281,977 of the financial result was observed. The reason for the deterioration is increase of financial expenses by 89 per cent.

2.2 Trend Analysis of major Expenditure Items

Interest expenditure for bank overdraft for the previous year and the year under review was Rs.35,199,403 and Rs.67,405,970 and compared with the previous year, the said expenditure had increased by 91 per cent during the year under review. Even though number of supplies had increased to the Medical Supplies Division, more bank over drafts had to be obtained due to delays of receiving money.

2.3 Ratio Analysis

Compared with the previous year net profit ratio of the year under review had reduced by 0.4 per cent and debtors turnover ratio had reduced by 1.1 times and recovering period of debts had increased by 43 days. It was observed that operational activities of the Corporation should be accelerated paying attention in this regard.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management comment	Recommendation
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Debit notes valued at Rs.1,754,661,431 had been issued to the suppliers as at 31 December 2018 for recovering the cost, administration charges incurred thereon and expenses incurred to destroyed the stocks in respect of supplying quality failed drugs and damaged drugs and law supply of drugs to the Medical Supplies Division. Nevertheless the Corporation had failed to recover a sum of Rs.811,195,059 out of the said amount. A sum of Rs.47,106,121 included in the above amount should be recovered for the suppliers who had black listed and a sum of Rs.283,811,421 should be recovered from the suppliers who had defaulted payments. Hence those recovering were uncertain.	It is not an easy task that recovering from suppliers after issuing debit notes. Engaging in the recovering process of debit notes values even as instalments, out of Rs.811,195,059 which should be recovered as at 31 December 2018, a sum of Rs.44,760,118 had been recovered as at 30 April 2019 and legal actions to be taken to recover from the black listed suppliers.	Efficient method should be followed to recover from the suppliers.

3.2 Operating Inefficiencies

Audit Issue -----	Management comment -----	Recommendation -----
(a) Although it had been purchased for the sale of the Corporation, the total cost of the quality failed and expired drugs during the previous year were Rs.23,561,218 and Rs.80,834,686 respectively and the cost of the quality failed and expired drugs for the year under review were Rs.13,979,105 and Rs.42,776,256 respectively.	Out of the drugs purchased during the previous year and the year under review for the sale of the Corporation, the value of quality failed and expired drugs were Rs.165.9 million, out of that, a sum of Rs.52.5 million was recovered and actions to be taken to recover the rest.	The value of the quality failed drugs should be recovered from the suppliers. Actions should be taken to find out the reasons for expiring drugs and to apply remedies and to recover the loss from the parties responsible.
(b) The total loss occurred from 24 Osusals out of 40 Osusals operated during the year under review was Rs.45,139,259. Thirty two per cent of the said total loss was occurred from 07 Osusals located in Avissawella, Minuwangoda, Diyathalawa, Tangalle, Hambanthota, Jaffna and Rathmalana. These 7 Osusals had continuously occurred losses since the year 2013.	It seems an increase of sales of the Osusals which were occurred losses and the loss had reduced , Four new Osusals were added to the network in the year 2018, it could not be expected a profit at once from new Osusals, the price of drugs has to be controlled simultaneously and huge amount has to be paid as monthly rent for buildings of Osusals , those are additional reason for that situation and it is expected to be applied various strategies in this regard.	Necessary steps should be taken to minimize losses of Osusals and to earn profits.

3.3 Transaction in Contentious Nature

Audit Issue -----	Management comment -----	Recommendation -----
A sum of Rs.1,000,000 had been sent to the Director General of Health Services during the year under review for a function which had been held to celebrate the appointment of the Minister of Health Nutrition and Indigenous Medicine to the position of Deputy Chairman of the 143 Executive Committee of the World Health Organization.	This is an event that making a special place to Sri Lanka in the field of health of the entire world and various local and foreign parties were participated to that function, benefit of sales promotion was received to the Corporation through this sponsorship.	Funds should not be incurred for the objectives extraneous from the objectives of the Corporation.

3.4 Procurement Management

Audit Issue -----	Management comment -----	Recommendation -----
(a) According to the paragraph 4.2 of the Government Procurement Guideline, a master procurement plan and a detailed procurement time table had not been prepared for the medical supplies purchased for the sale of the Corporation.	Although it was agreed with the observation, it could not be taken actions practically as mentioned as per the nature of the procurement.	Actions should be taken as per the Government Procurement Guideline.
(b) Office equipment had been purchased incurring a sum of Rs.1,530,229 following the shopping method during the year under review. The following observations are made in this regard.		
(i) According to the Government Procurement Guideline, members of the Technical Evaluation Committee not being informed early, all documents for calling bids not being examined and approved by the Technical Evaluation Committee, Evaluation of bids not being carried out as to be allowed an adequate time for proper approvals and actions not being taken according to the procurement plan.	Agreed with the observations and those errors will be rectified in future procurement.	Actions should be taken as per the Government Procurement Guideline
(ii) Conditions for recovering liquidated damages had not been mentioned specifically relating to a delayed order. Hence liquidated damages for 124 days delayed period could not be recovered.	-do-	-do-
(c) During the year under review, 720 vials of 100mg in 10 ml of Rituximab Injection and 920 vials of 500 mg in 50 ml had been purchased incurring a sum of Rs.57,675,670 from the international market following the limited competitive bidding process. The following observations are made in this regard.		

(i) Even though authority for rejection of bids due to the bidders not being pre-suppliers is not vested by the Technical Evaluation Committee, the lowest bid had been rejected on the said reason.	Not commented	Disciplinary actions should be taken by the Disciplinary Authority in respect of the officers who were responsible for deviating the requirements of the Government Procurement Guideline as per the Section 8.1 and 8.2 of the Chapter XLVII of the Establishment Code.
(ii) Approval had been granted by the Procurement Committee for the recommendation of the Technical Evaluation Committee to award the order per 50 per cent to the second and third lowest bidders. However the third bidder was also not an pre - supplier.	-do-	-do-
(iii) An additional cost of Rs.5,421,827 had to be incurred by the Corporation due to the contract not being awarded to the lowest bidder.	It is not correct showing as an additional cost because the tender was awarded to the recommended lowest price.	-do-
(d) Five hundred and forty vials of 100mg in 10 ml of Rituximab Injection and 690 vials of 500 mg in 50 ml had been purchased incurring a sum of Rs.67,768,500 from the local market. The additional cost incurred thereon was Rs.21,606,922. The following observations are made in this regard.		
(i) Actions had not been taken to obtain a performance bond from the supplier.	A performance bond was not obtained because it was an emergency procurement.	Disciplinary actions should be taken by the Disciplinary Authority in respect of the officers who were responsible to deviate the requirements of the Government Procurement Guideline

as per the Section 8.1 and 8.2 of the Chapter XLVII of the Establishment Code.

- (ii) Although two consultants should be appointed to the Technical Evaluation Committee, only one consultant had been appointed. -do-
- (iii) Even though authority for rejection of bids due to the bidders not being pre-suppliers is not vested by the Technical Evaluation Committee, the lowest bid and the second lowest bid had been rejected on the said reason. It is not better to act against to the opinion or recommendation of the consultant who does the technical evaluation. Specially in emergency procurements, there is no any other alternative than neglecting the item of which the consultants had informed that they are not being able to give a recommendation. Disciplinary actions should be taken by the Disciplinary Authority in respect of the officers who were responsible to deviate the requirements of the Government Procurement Guideline as per the Section 8.1 and 8.2 of the Chapter XLVII of the Establishment Code.
- (iv) The additional cost incurred due to the order had been awarded to the bidder who had submitted the forth lowest bid was Rs.44,545,500. Bid was offered to the recommended supplier, Hence, it is not correct calculating additional cost compared with the price of suppliers who were not recommended. -do-
- (e) During the year under review, 1,102,600 units of Blood Glucose Testing Strips with Blood Lancet and 974 units of Blood Glucose Testing Meters had been purchased incurring a sum of Rs.10,904,714 under the limited international competitive bidding process. The following observations are made in this regard.

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| (i) | The order had been supplied to the Medical Supplies Division with a delay of a period of 6 months spending additional 14 weeks and 12 weeks for technical evaluation and procurement activities respectively deviating the procurement time table. | It was not practical that the Medical Supplies Division offered a shorter period like 4 months and the first stock was supplied before 9 ½ months. | Actions should be taken as per the Government Procurement Guideline |
| (ii) | Due to that delay, 2,878,150 units of Blood Glucose Testing Strips with Blood Lancet had been purchased incurring a sum of Rs.47,259,233 from the supplier who the main order had been purchased following the direct contract method. | Direct purchase was made from the supplier who the Medical supplies Division informed in writing. | Actions should be taken as per the Government Procurement Guideline |
| (iii) | Recommendation of the Procurement Committee relating to the second procurement had been given on 17 July 2018. However the purchase order had been issued on 16 July 2018 the day before that day. | On the emergency requirement, order had been issued subject to the covering approval of the procurement Committee. | -do- |
| (iv) | The Department Procurement Committee had recommended increasing the second order by another 1,439,075 units on 08 August 2018. However the purchase order in this regard had been issued before 2 days and the goods had been handed over to the Medical supplies Division even as at 07 August 2018. | | -do- |
| (v) | Although Blood Glucose Testing Strips with Blood Lancet had been purchased at Rs.9.89 per unit from the main order, from the second order 4,317,225 units had to be purchased at Rs.16.42 per unit under the direct contract method. Hence the loss occurred was Rs.28,191,479. | Agreed with the matters mentioned in connection with the additional cost, if the said additional cost had to be incurred due to the delay of the main supply, there is a methodology for recovering from the main supplier. | The loss should be recovered from the responsible parties. |

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| (vi) | A performance bond had not been obtained from the supplier and actions had not been taken to enter into an agreement. | As an emergency purchase, bid bond or performance bond was not obtained and agreements were not signed. | Actions should be taken as per the Government Procurement Guideline |
| (f) | Out of the surgical equipment item Sterile Single Use Plastic Syringes Size 50 ml, 240,000 units had been purchased incurring a sum of Rs.10,045,000. All 240,000 units of the said equipment had been rejected by the Medical supplies Division because the labeling had not been done by the supplier as agreed. An additional cost of Rs.1,597,563 had to be incurred for retaining the stock of equipment and container liquidated damages. Out of that, even though a sum of Rs.712,759 only had been recovered from the supplier, a sum of Rs.884,804 which should be recovered from the staff of the Corporation on behalf of the responsibility of the employees of the Corporation had not been recovered. | In connection with the additional cost, necessary actions will be taken after searching whether the responsibility should be gone to the staff of the Corporation. | Funds should be recovered from the staff of the Corporation on behalf of their responsibility. |
| (g) | In the events of purchasing drugs in favor of the patients name, due to the main supplies made by the Medical supplies division are delayed, medical supplies including drugs had been purchased from the local market. The following observations are made in this regard. | | |
| (i) | Purchasing procedures and methods had not been specified and written instructions or guidance had not been prepared. | Procedures which were being followed since a long period of time were followed in connection with procurement relating to regional purchasing. | Actions should be taken to correct the deficiencies observed. |
| (ii) | A condition had not been included in the bid documents mentioning the decision of the Board of Directors to make payment to the suppliers after receiving money relating to the supplies made by the Corporation from the Medical Supplies Division. | Funds were received directly from the Treasury for the medical supplies and that money were paid to the suppliers. | -do- |

(iii) Procurements had been awarded exceeding the financial limits of the Guideline 2.14.1 of the Government Procurement Guideline.	Not commented	-do-
(iv) Although it had been mentioned in the bid documents to submit samples with the bids, such requirement had not been considered in the evaluation.	It is a responsibility of the bidder that samples were submitted with the bid.	-do-
(v) Contract agreements had not been signed with the suppliers.	In emergency purchasing, there is no time to sign agreements and since delivery is expected to be made as soon as the order is issued thus a proper agreement is not signed.	-do-

3.5 Defects in Contract Administration

Audit Issue -----	Management comment -----	Recommendation -----
(a) The following observations are made in connection with the contract of Rs.106,305,300 for the construction of new building for the Rajya Osusala Colombo 7		
(i) A sum of Rs.6,824,841 paid for the additional work which had been fulfilled without a proper approval had been included in the payment of Rs.88,926,577 made to the contractor during the period from the year 2013 to the year 2016.	Actions were taken to complete the work of the building complying with the instructions given by the Ministry Procurement Committee to take actions as per the section 8.13.4 of the Procurement Manual in connection with the contract variations and to select a new contractor through a new procurement process or following direct contract method as per the instructions of the Guideline 3.5.1 of the Government Procurement Guideline for the work newly identified.	Further actions should be taken after a proper investigation.

(ii) The Corporation had failed to get completed the contract even up to 10 May 2019 according to the contract agreement and liquidated damages had not been recovered for the period exceeding 4 years since then.	Not commented	Further actions should be taken after a proper investigation.
(iii) The performance bond had expired as at 24 February 2016. However the period of validity had not got extended even up to 18 March 2019.	-do-	-do-
(iv) An electric lift at a cost of Rs.4,010,742 which was not comply with the specifications and with examination certificates of quality failed had been fixed.	-do-	-do-
(v) Although a sum of Rs.5,732,000 had been paid in the year 2016 for 24 air conditioned machines which had been fixed, those had not been used until the warranty period was expired.	-do-	-do-
(vi) Activities relating to fix 7 electricity distribution boards (transformers) had not been completed even up to 18 March 2019. However a sum of Rs.284,900 had been paid in this regard in the year 2016.	-do-	-do-
(b) According to the agreement signed on 19 December 2016 in order to build up Enterprise Resources Plan of which the contract value was Rs.49,355,000, even though implementation of the project should be completed within 61 weeks since then, it had not been completed even up to 25 March 2019 and the period delayed was 55 weeks. A sum of Rs.4,935,500 had been paid as advance on 12 March 2018 without obtaining an acceptable advance payment bond.	Not commented	Further actions should be taken after a proper investigation.

4. Accountability and Good Governess

4.1 Corporate Plan

Audit Issue	Management comment	Recommendation
<p>The Corporate plan for the years 2016 – 2018 and the action plan for the year 2018 had not been prepared as to be able to fulfill the main objectives i.e. establishing industries for manufacturing of sensitive chemicals and sponsoring them and commencing research on sales of drugs in the Island and foreign countries mentioned in the government Gazette notification No. 14,976/8 dated 22 September 1971 in connection with the establishment of the Corporation.</p>	<p>Actions were taken paying attention to the prominent objectives of the Corporation.</p>	<p>The corporate plan and the action plan should be prepared by paying attention for achieving preliminary objectives of the Corporation.</p>

4.2 Annual Action Plan

Audit Issue	Management comment	Recommendation
<p>(a) Performance indicators of the activities included in the corporate plan which had been prepared by the Corporation for the period of the year 2016 to the year 2018 had not been mentioned in the level of which can be specifically and adequately measured. As a result, progress of achievements of 6 activities included in the action plan for the year 2018 could not be evaluated specifically.</p>	<p>Actions to be taken to correct the situation in future.</p>	<p>Performance indicators should be mentioned as to be measured the progress of the activities which expected to be achieved specifically and adequately.</p>

- (b) Six activities included in the corporate plan prepared for the period of 2016 -2018 and which could not be fulfilled during the years 2016 and 2017 had not been included in to the action plan for the year 2018. The Corporation had failed to fulfilled the activities which had been included into the action plan since the year 2015 i.e. Enterprise Resources Plan and coordination of it with external parties , improving the Business Continuity Plan , revision of Scheme of Recruitment , preparing Succession Plan for the management posts and actions for grading promotions.
- Agreed with the observation, Actions to be taken to complete all projects including the Enterprise Resources Plan and coordination of it with external parties.
- Action plan should be prepared properly.

4.3 Sustainable Development Goals

Audit Issue -----	Management comment -----	Recommendation -----
Due to the fact that the Corporation had not aware with the Circular issued by the Secretary to the Ministry of National policy and Economic Affairs No. NP/SP/SDG/17 dated 14 August 2017 and the 2030 Agenda for Sustainable Development adopted by the United Nations, actions had not been taken to identify activities, sustainable development goals and targets under their purview and achievements for that targets and indicators to measure the achievements.	It was not aware properly in connection with the 2030 Agenda of the Sustainable Development Goals, Accordingly actions were not taken in this regard up to now and actions will be taken after searching the matter.	Actions should be taken as per the Circular issued by the Secretary to the Ministry of National policy and Economic Affairs and 2030 Agenda for Sustainable Development Goals