State Pharmaceuticals Corporation - 2021.

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Pharmaceuticals Corporation for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be 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 accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2021, 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 Paragraph 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 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 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 on 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 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 on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to particular Standard		Comments of the Management	Recommendation
(a)	Instead of 03 fund accounts established for 03 specific purposes totalling to Rs.23.01 Million as at 31 December 2021being disclosed as non-current liabilities in terms of Paragraph 69 of Sri Lanka Accounting Standard 1, it had been disclosed as current liabilities.	As the entire 03 fund accounts are consisted of grants received for specific purposes the money should be reserved until it is used for a suitable purpose.	Actions should be taken in accordance with Sri Lanka Accounting Standards.
(b)	Although the accounting policies used in measuring inventory, including the cost formula used, should be disclosed in the financial statement in terms of Paragraph 36 (a) of Sri Lanka Accounting Standard 2, the disclosures had not been made regarding the stock-in-hand in Osu Sala Outlets.	Actions will be taken to disclose how the closing stock of Osu Sala Outlets has been calculated in the financial statement in 2022 .	-do-
(c)	Due to failure to review of residual value and useful life for non-current assets annually, in terms of Paragraph 51 of Sri Lanka Accounting Standard 16, though the fixed assets cost at Rs.128.82 Million	Although the efforts were made in 2020 and 2021 to revalue the relevant assets, as a result of the Covid pandemic situation the task	-do-

	were fully depreciated, further being used. Accordingly, Actions had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.	could not be accomplished and those assets have been submitted to the Government Valuation Department for the revaluation of assets during the year 2022.	
(d)	Although a sum of Rs.28.50 Million had been allocated for the year under review as per the policy of making a provision equal to the full value of the stock not settled for more than one year, the necessary disclosures in the financial statements had not been made in terms of Paragraph 84 of Sri Lanka Accounting Standards 37.	The accounting policies on making provisions have been stated in notes 2.8 and 3.9 of the financial statements. A hundred per cent provision will be made for all stock values outstanding for more than one year and also for the stocks less than a year old but it clearly cannot be confirmed as returned to the Government Medical Store.	-do-

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Although the difference between the cost of the remaining stocks of the Osu Sala Outlets as at 31 December 2021 and the exchange value of those stocks should be adjusted as unrealized profits, only Rs.58.00 Million equivalent to 7.8 per cent of the stocks exchange value had been allocated as unrealized profits without being identified the cost of stock-in-hand specifically.	The Corporation does not have a computerized system designed to accurately calculate the exchange value of the stock- in-hand at the end of the year from the imported pharmaceuticals transferred from the main stores to the Osu Sala Outlets, the exchange value of the stock -in -hand at the end of the year is calculated in an estimated method obtained by deducting the exchange rate from the average stock of Osu Sala Outlets and Actions are being taken by now to make necessary changes in the existing computer system for the above calculations.	It should identify the difference in between the cost of stock-in-hand in the Osu Sala Outlets and the exchange value of the stocks and adjust as unearned profits.

(b)	Accrued expenses amounting to Rs.372,590 had not been accounted for as at 31 December 2021.	This will be corrected in future.	This error should be corrected.
(c)	Due to the fact that the invoices along with the Goods Received Notes for the medical supplies purchased from 02 suppliers and supplied to the Medical Supplies Division in the previous year and the year under review had not been received by the Corporation, the value of purchases and sales that had not been accounted for by the date of audit, 15 June 2022, was Rs.4.84 Million and As a result, the service fee income related to that amounting to Rs.193,764 had not been accounted for.	Actions are being taken to accounted for these values.	Actions should be taken to accurately identify and account for the purchase and sale values and service charges or to disclose.
(d)	Due to the delay in the main order issued to the suppliers for the Medical Supply Division during the period from 2016 to 2021, it had not been disclosed in the financial statements that the additional cost of Rs.122.15 Million that had to be spent for the medical supplies and that had to be purchased from local markets should be recovered from the relevant suppliers. Further, the information on the additional cost incurred by the Surgical Division in that matter was not submitted for the audit.	It has been disclosed under Note No. 5.3 of the financial statements.	Actions should be taken to disclose the additional costs.

1.5.3 Unreconciled Control Accounts or Records

	Audit Observation	Comments of the Management	Recommendation
(a)	According to the financial statements, a 95.6 per cent of the total debtors that is Rs.52,850.87 Million should have been received from the Medical Supplies Division on 31 December 2021, the balance as at the date was Rs.25,514.28 Million as per the accounts of the Ministry of Production, Supply and Regulation of the Pharmaceuticals and the balance as per the balance confirmation sent by the State	A detailed report on this has been requested from the Medical Supply Division and reconciliations will be made as soon as it is received.	Before preparing future financial statements, reconciliation should be made regarding such changes and necessary adjustments should be made.

	Ministry was Rs.47,166.18 Million. The reasons for the difference of Rs.27,336.59 Million and Rs.5,684.69 Million respectively were not furnished.		
(b)	Thus the balance as per the accounts of 06 trade creditors who had submitted balance confirmations as at 31 December 2021 was Rs.47.40 Million and the confirmed balance was Rs.158.25 Million, there was a net difference of Rs.110.85 Million.	Comments had not been given.	Balance reconciliations should be prepared and the reasons for the difference should be identified and corrected.
(c)	Out of the medical supplies purchased to sell through Osu Sala Outlets during the period from the year 1996 to 2021 as per the financial statements , although the cost of quality failed, expired and damaged medical supplies as at 31 December 2021 was Rs.215.48 Million, thus the cost of it as per the Board of Survey as at the date was only Rs.195.25 Million, the difference was Rs.20.23 Million. Although it was identified that the reason for the difference was an inventory shortage, the necessary adjustments had not been made in the financial statements.	This difference has been identified in the year 2013, charge sheets were issued against three officials and formal disciplinary investigations were conducted regarding the matter that caused the change, the amount of gratuity and other allowances retained by the Corporation Disciplinary Authority of the two retired female officers based on formal disciplinary investigation reports and the actions were taken to release other allowances , the other accused officer who is currently serving has been cleared of all the accuses as per the formal disciplinary inquiry report.	Necessary adjustments in the financial statements should be made in a formal manner.
(d)	Although the book value of fixed assets such as computers, equipment, furniture and fixtures was Rs.269.71 Million as at 31 December 2021 as per the financial statements, thus that value was only Rs.263.54 Million as at the date as per the Register of Fixed Assets, the difference was Rs.6.17 Million. The reasons for the difference were not furnished.	Arrangements are being made to correct the Fixed Asset Register.	Specific reasons for differences and the information on corrections should be submitted for audit.

(e)	Although the total sales income during the year under review as per the financial statements was Rs.79,490.40 Million, thus that amount was Rs.78,284.92 Million as per the performance reports submitted by the Marketing Division for the audit, the difference was Rs.205.48 Million. The reasons for the difference were not furnished.	Comments had not been given.	-do-

1.6 Receivable and Payables

1.6.1 Receivables

Audit Observation		Comments of the Management	Recommendation
(a)	Arrangements had not been made to recover the cost of Disputed Goods in Transit for the years 2007, 2008, 2009 and 2012 amounting to Rs.2.00 Million and custom duties amounting to Rs.12.60 Million from the relevant parties.	Actions will be taken to write off the old values unsettled.	Arrangements should be made to recover the amount due from the respective parties or to properly write off.
(b)	The container deposits as at 31 December 2021 was Rs.18.62 Million and out of which, a sum of Rs.6.97 Million had failed to be recovered from the period between 2 and 14 years. Out of these, it had failed to recover any amount during the year 2021 from the deposits of Rs.5.74 Million related to the period from the year 2007 to 2015 .	A sum of Rs.5.76 Million from the balance between the years 02 and 14 had been sent to the Board of Directors to write off and actions are being taken to recover the balances from the suppliers.	-do-
(c)	Although the value of sales should be recovered from the respective trade debtors within 30 to 45 days from the date of sale as per the policy of the Corporation, it had failed to recover a sum of Rs.22.38 Million for a period of more than 05 years and Rs.26.87 Million from a period between 01 and 05 years to be received from private, public and semi-public institutions which had remained in the balance of trade debtors as at 31 December 2021 amounting to Rs.1,311.82 Million. Legal measures had been taken only for recovery of loan balance of Rs.10.44 Million which is more than 05	The balance of Rs.22.38 Million which is the value of debtors for more than 05 years remains the same, a sum of Rs.47.81 Million have been collected out of the balance of Rs.74.69 Million in between the years 01 and 05 and the actions are being taken to recover the balance.	According to the policy of the Corporation, debt collection should be done efficiently within the period to be collected and as per the agreement.

	years old and the disclosures had been made only for Rs.2.37 Million in the financial statements.		
(d)	Out of Rs.52,850.87 Million receivable from Medical Supplies Division as at 31 December 2021, it had failed to recover a sum of Rs.211.59 Million in between 12 years and 23 years and Rs.3,585.36 Million in between 6 years and 14 years.	Due to lack of proper system of receiving and documenting the goods at the time of delivery to the Government Medical Supplies Division has been a main reason to occur this situation , arrangements are being made to write off these old loan balances and balance reconciliations are being done to recover old balances.	Arrangements should be made to settle or write off old loan balances.
(e)	Out of Rs.14.62. Million receivable from Parliament Complex as at 31 December 2021, it had failed to recover a sum of Rs.9.04 Million for more than 05 years.	Although the discussions were carried out several times with the Speaker, the Secretary to Health and the relevant parties to recover a sum of Rs.14.62 Million receivable for medicines given to the Parliament Complex, there was no satisfactory answer received and a provision of bad and doubtful debts equal to this total amount has been made in the year 2017.	-do-
(f)	It had failed to recover sundry debtors valued at Rs.5.68 Million out of Rs.7.66 Million receivable in between 24 years and 05 years as at 31 December 2021.	Legal proceedings at are being carried out to recover Rs.1.33 Million and appropriate actions will be taken regarding the remaining values.	-do-
(g)	Out of the advances issued to suppliers but not settled as at 31 December 2021 amounting to Rs.928.52 Million, a sum of Rs.3.49 Million had not been settled for a period between 06 and 14 years.	Comments had not been given.	Actions should be taken to settle the advances which were issued to suppliers but not settled within the prescribed period.

1.6.2 Payables

Audit Observation		Comments of the Management	Recommendation
(a)	Accrued expenses as at 31 December 2021 were Rs.258.66 Million and of which, a sum of Rs.132.07 Million had not been settled even by 31 May 2022 and Rs.9.94 Million out of that were the balances unsettled from 02 to 04 years.	The accrued expenses were not settled due to insufficient information available and contractors have not asked about the retention.	The amount receivable should be settled within the stipulated period as per the policy and contractual terms of the Corporation.
(b)	Actions had not been taken to settle a sum of Rs.115.00 Million for more than one year out of Rs.1,217.07 Million to be paid to trade creditors as at 31 December 2021 .	Out of Rs.115.00 Million to be paid to trade creditors over 01 year old and had arisen on payment on receipt basis, a sum of Rs.59.73 Million has not been paid even by now and will be settled when the money is received from the respective parties.	-do-
(c)	Out of Rs.14,489.59 Million in Bank Bills payable Account Balance as at 31 December 2021, although a sum of Rs.708.42 had consisted of 100 per cent Letter of Credit value and dues unpaid to suppliers for more than 02 years and the retention money, actions had not been taken to settle.	Agree with the observation and the relevant reasons for non-payment will be provided promptly.	Arrangements should be made to look into unpaid amounts to suppliers over a long period of time and settle or take to the income.
(d)	Out of Rs.21.13 Million special order advances received by 31 December 2021, a sum of Rs.982,510 received from the Family Health Bureau was an outstanding balance for more than 10 years and although the rest consisted of a balance of Rs.20.15 Million received from UNICEF for more than 2 years, actions had not been taken to settle.	Agree with the observation and it will be credited to the income in the next year.	Payment of advances should be made immediately after completion of supply or after abandoning the supply.
(e)	Although the agency commission should be paid only to the agent, a sum of Rs.550,912 as agent commission was paid to the agent despite it was also	Steps are being taken to recover the overpaid amount.	Before payments are made to suppliers, it should ascertain whether the agency

	paid to the supplier during the year under review.	commissions were settled.	

1.7 Non-compliance with Laws, Rules, Regulations, and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Finance Act No. 38 of 1971			
(i) Section 10(5) and Department of Public Enterprises letter No. PED/A/REV /1/15 (ii) dated 16 December 2021	Although the net surplus revenue remaining after the appropriations mentioned in the Act in each year shall be credited to the Consolidated Fund and according to the letter of Department of Public Enterprises, the Corporation should credit Rs.350 Million to the Consolidated Fund during the year under review. Nevertheless, only Rs.128 Million had been sent to the Treasury by 20 July 2022, for credit to the Consolidated Fund for the year under review and the remaining amount to be remitted had not been disclosed in the financial statements.	Actions will be taken to pay the remaining amount of Rs.222 Million to be paid from the profit obtained from the supply of medicines to the Medical Supplies Division, once the money due has been released by the Treasury.	Actions should be taken as per the instructions of the Finance Act and the relevant Department of Public Enterprises letter and the Further payables to be disclosed in the financial statements .
(ii) Section 14 (3)	Although the Annual Report prepared for a particular year should be submitted to the Parliament along with other relevant documents within 10 months of the beginning of the following year, the Annual Reports for the 03 years of 2018, 2019 and 2020 had not been prepared and submitted to the Parliament even as at the date of this Report.	The Annual Reports of the years 2018 and 2019 have been submitted to the Ministry of Health for submission to Parliament on 15 June 2022, The printing of the Annual Report of the year 2020 is in the final stage and that can be submitted to the Parliament in a very short period of time.	Actions should be taken in terms of Finance Act and the relevant circulars.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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(i)	Financial Regulations 103, 104, 105 and 107	Actions had not been taken in accordance with Financial Regulations in respect of expired stock in the previous year and the year under review at a cost of Rs.191.86 Million as at 31 December 2021 and the quality failed stocks in the previous year and the year under review cost at Rs.40.71 Million as at the date.	Comments had not been given.	Actions should be taken in accordance with Financial Regulations.
(ii)	Financial Regulations 395 (c) and (f)	Although a bank reconciliation statement should be prepared before the 15th day of the following month in respect of the transaction status at the end of each month, the bank reconciliation statements related to the Bank of Ceylon current account had been prepared after a delay of 02 months and bank reconciliation statements for the 9 months ended December 2021 had not been prepared in relation to Sampath Bank current account. Likewise, delays in preparation of bank reconciliations were not brought to the notice of the Accounting Officer.	The cash book and the bank reconciliation are prepared under the limited facilities of the existing computer system, steps have been taken by now to update the existing computer system with necessary facilities, since Sampath Bank account is an account opened as a sales promotion, bank reconciliation statements have been prepared only in relation to the months in which the transactions took place and even if the transactions do not take place, the bank reconciliation will be prepared monthly in the future.	-do-
(iii)	Financial Regulations756 and 757 (2)	Although the fixed assets should be surveyed annually and submitted the survey reports to the Auditor General, the survey	The annual fixed asset survey has been completed and the preparation of the	-do-

		reports for the year under review had not been submitted for audit even as at 05 June 2022 .	survey report is being done and the copies will be submitted to the Auditor General as soon as it is completed.	
(c)	Public Enterprises Circular No. 95 dated 14 June 1994	A sum of Rs.70.63 Million to the staff for remaining annual leave and Rs.70.92 Million as performance incentives per employee per month had been paid to the staff during the year under review without obtaining Treasury approval.	The Annual Performance Incentives have been paid in accordance with the approval already obtained under Clause 6(ii) d of the Collective Agreement of the Corporation.	Actions should be taken in terms of circular provisions.
(d)	Public Enterprises Circulars No. PED/03/2018 dated 07 December 2018 and No. PED/03/2021 dated 15December 2021.	Although the provisions of this circulars cannot be applicable to the Corporation with a collective agreement, bonuses valued at Rs.12.47 Million had been paid to each employee as Rs.13,500 each by acting in accordance with the provisions of this circular.	-do-	-do-
(e)	Paragraph 4.3 of the Public Enterprises Department Circular No. 01/2021 dated 16 November 2021 on Corporate Governance Guidelines	Although the Corporation shall appoint a Risk Management Committee to calculate the impact of financial and non-financial risks on the business operations of the Institution and to take appropriate measures to mitigate the risks affecting the operations of the Institution, the said Committee had not been appointed even by 31 May 2022 .	A Memorandum for Board of Directors has been prepared to seek the approval of the Board of Directors for the appointment of a Risk Management Committee and the approval will be taken at the next Board Meeting and appropriate actions will be taken.	-do-
(f)	Treasury Circular No. IAI/2002/02 dated 28 November 2002	A Register of Fixed Assets complying with circular provisions had not been maintained for the computer accessories and software cost at Rs.122.52 Million as at 31 December 2021	A Register of Fixed Assets for computer hardware and software is being maintained by the Computer Division.	-do-

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a profit of Rs.2,384,563,878 and the corresponding profit of the preceding year was Rs.1,969,223,517. Accordingly, a growth of Rs.415,340,361 was observed. The increase of sales income by 27 per cent had mainly attributed to this improvement.

2.2 Trend Analysis of Major Expenditure Items

The professional service expenses of the preceding year and the year under review were Rs.976,783 and Rs.10,660,320 respectively and the expenditure had increased by 991 per cent in the year under review as compared to the preceding year. Obtaining of more professional service facilities mainly from external parties had caused to that.

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2.3 Ratio Analysis

The gross profit ratio and net profit ratio had decreased by 0.5 per cent and 0.1 per cent respectively and the debt turnover ratio had decreased by 0.2 times in the year under review as compared to the preceding year and the debt recovery period had increased by 17 days. The operations of the Corporation should be made efficient by paying attention to that.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	A Standard Operating Procedure had not been prepared for the marketing process of the Corporation.	A Committee of 4 officers will be appointed to prepare standard operating procedures for the marketing process of the Corporation.	Standard operating procedures should be developed and approved.
(b)	It was observed that the Medical Supply Management Information System (MSMIS), which was introduced in 2015 for the management of medical supplies was not properly utilized, although the computer system provided the facility of updating the progress related to the relevant order by including each	Although the orders were submitted through the Pronto Computer System, the signatures of the officers of the Medical Supply Department were not available To prove the legal validity of those orders. There is a possibility to modify or	The Corporation should also be updated in the Pronto Computer System through the advices and coordination of the Ministry of Health and the Medical Supply Division.

step in the system from ordering the medicine to receiving the stock (Status), the officers of the Corporation are not entering the information related to the order in the system due to a technical problem that had occurred for 07 years. Similarly, as the Corporation had stored the information related to the order through other computer Excel Sheets, it was observed that due to the non-availability of information such as the date of conducting technical evaluation of a tender, the date of procurement committee decisions, the date of opening of Letters of Credit etc., it takes more time to check and decide the persons responsible for the delay in the procurement as well as to aware of information about the current progress of the order, although the medical supply division submits the order lists related to the respective year to the Corporation through this computer system with a lead time of 11 months, the Corporation had not started the procurement related to those orders immediately, the commencement of procurement had delayed until the written copies of the order list were received by the Corporation, it took more than 18 days to send the written copies of the orders issued to the Corporation through the computer system to the Import Division of the Corporation and since the procurement works had started only after that, it was observed that, a considerable time out of the supply period of 11 months

remove the order from the system at any time MSD is needed during the period until the Corporation enters a purchase order into the system by the Corporation to an order systematized by MSD, further, the bids cannot be called without Conditions of Supply, the MSD does not confirm that the Conditions of Supply are common to every order and the procurement will be commenced based on the hard copy received as acceptable to the Corporation.

Arrangements should be made to remove the obstacles.

	was spent on the process of issuing and receiving orders.		
(c)	The Corporation uses 14 Management Information Systems (MIS) for its operational and administrative functions and although a contract agreement had been entered into expecting to implement a new Enterprise Resource Planning System to accomplish the tasks performed by 12 systems with one system, the contract had been terminated on 20 February 2020 due to a poor performance as a result of being failure to select a suitable contractor. A number of 497 units of 09 items of computer accessories had been purchased at a cost of Rs.32.36 Million in the years 2018 and 2019 for the implementation of this project and 375 units of 09 items with a cost of Rs.26.11 Million which were not used for the project activities had been released for the use of other functions of the Corporation. Similarly, Out of 06 items of computers and accessories purchased for this project at a cost of Rs.6.25 Million, 122 units had remained unused in the warehouse as at 09 June 2022, the date of audit. Although the number of users currently using the 12 systems is 324, as the number of users expected to use the new system was 1,399, the inability to implement this project had severely affected the activities of all the Divisions of the Corporation.	Before the remaining devices became obsolete after the Project was abandoned in 2019, it has been used according to the various needs of the organization with the aim of getting maximum benefits, attempts are being made to introduce a new Enterprise Resource Plan (ERP system) with the aim of solving various problems in the systems currently in use and running the organization more efficiently and effectively and although its procurement was in its final stages, the activities could not be carried out successfully due to the sudden economic problems in the country, it is expected to introduce a new and more effective system as soon as possible.	Building new enterprise resource planning systems and implementing should be expedited.

(d)	Although the Corporation had purchased for sale , 09 items of pharmaceuticals with the total cost of Rs.4.94 Million that had held back for sale due to deficiencies in the quality, had expired even by 22 April 2022. A loss of Rs.4.94 Million had occurred to the Corporation due to not taking proper measures regarding those stocks at the right time.	The comments had not been given.	Measures that should be taken on retained stock items should be taken at the right time.
(e)	Although it was purchased for the Medical Supplies Division during the period of 17 years from the year 2005 to 2021, the medical supplies stock which was retained because of the refusal of the Division to accept and the costs cannot be calculated and the total additional storage costs incurred by the Corporation during that period due to the fact that the stock of medical supplies with a total cost of Rs.345.25 Million had to be stored in the private warehouses was Rs.19.81 Million. The Corporation had not taken actions to the rejection of the stock by the Medical Supply Division or to take necessary actions in that regard to reject such stock by Medical Supplies Division and to find out the reasons or to take steps in respect of that and it was also observed that the storage costs are increasing day by day due to the fact that the arrangements had not been made for proper disposal of those stocks.	Out of the stocks rejected by the Medical Supplies Division, the stock valued at Rs.79.98 Million has been taken over again by the Medical Supplies Division by 30 June 2022, Similarly, the approval of the Board of Directors were received for the disposal of another 116 stock items rejected by the Medical Supplies Division, this stock is to be disposed of after receiving the approval of Insee Ecocycle, which is involved in the disposal process of that stock, likewise, necessary arrangements will be made to send to the Board of Directors and obtain approval to dispose of that stock in the future after the receipt of Board of Survey Reports conducted as at 31 December 2021 for remaining stock furthermore.	The post-delivery operations to be taken in the case of stock items refused to be accepted by the Medical Supply Division should be completed as soon as possible and the measures to be taken should be taken as soon as possible.
(f)	Because lack of adequate storage facilities in the warehouse complex of the Medical Supplies	The Debit Notes have been issued to the Medical Supplies Division to	Arrangements should be made to recover the additional storage

	Division, 28 containers related to 28 indents imported by the Corporation in the years 2021 and 2022 had been detained in a private warehouse for a period of 06 months from 20 August 2021 to 21 February 2022 and the Corporation had paid a sum of Rs.48.28 Million as storage cost for those 06 months. However, this additional cost which had to be incurred by the Corporation had not been recovered from the Medical Supplies Division.	recover this money.	costs to be recovered from the Medical Supplies Division.
(g)	Due to supply of quality failed and damaged pharmaceuticals and supply of pharmaceuticals in less to Medical Supply Divisions, it had failed even by to recover the costs, administrative fees and costs of destruction of the stock incurred for that, from the suppliers and to recover money for the Debit Notes amounting to Rs.943.75 Million even by 30 June 2022 which had been issued by 31 December 2021. As a sum of Rs.71.03 Million had to be recovered from the blacklisted suppliers recoveries were at a doubtful situation.	Legal actions will be taken against the suppliers who have defaulted on payment of Rs.693.38 Million out of Rs.943.75 Million, which is the value to be recovered by 30 June 2022, a sum of Rs.20.82 Million has been identified as irrecoverable, a sum of Rs.9.311 Million has to be revised as per the recommendation of the National Medicines Regulatory Authority, the relevant suppliers have to be blacklisted due to defaulted a sum of Rs.71.03 Million, a sum of Rs.398,242 have been agreed to be paid by the suppliers, an amount of Rs.2.24 Million that the suppliers have agreed to resupply free of charge and the remaining amount of Rs.146.58 Million is still being recovered from the suppliers.	Arrangements should be made to make efficient the recovery of uncollected money from suppliers .
(h)	Although it had been purchased for the sales of the Corporation	Comments had not been given.	Actions should be taken to recover the

	as per the financial statements, the total cost of quality failed, expired and damaged pharmaceuticals was Rs.215.48 Million by 01 January 2021 and the total cost of quality failed , expired and damaged pharmaceuticals was Rs.128.93 Million in the year under review. Out of the total cost of quality failed pharmaceuticals amounting to Rs.40.71 Million in the preceding year and the year under review, a sum of Rs.25.04 Million had not been collected from the suppliers even by 01 June 2022 . Further, the total loss incurred by the Corporation due to expiry and damages of pharmaceuticals in the previous year and the year under review was Rs.191.86 Million.		value of quality failed drugs from the suppliers and to find out the reasons for the expiry of the drugs and to make remedies and to recover the losses from the parties responsible for those reasons.
(i)	Out of the 50 Osu Sala Outlets owned by the Corporation, 26 Osu Sala Outlets had incurred losses of Rs.53.24 Million during the year under review. The loss of 10 Osu Sala Outlets out of that, had increased from 15 per cent to 175 per cent as compared to the preceding year . Further, the 04 Osu Sala Outlets located at Ratnapura, Sri Jayawardenepura Hospital, Bandaragama and Monaragala, which had made profits in the previous year, had made losses in the year under review. It was also observed that the profit received in the year under review had decreased from 5.7 per cent to 7,411 per cent as compared with the profit received in the previous year of 09 Osu Sala Outlets. The	Agree with the observation, the COVID-19 epidemic situation in the year 2021 had caused to this.	Actions should be taken to reduce losses or to make a profit by constantly monitoring the loss-making Osu Sala Outlets and finding out the causes of the losses and taking remedies.

	Chairman informed that the cause for this was the Covid 19 epidemic.		
(j)	The excess stock was Rs.4.85 Million and the stock shortage was Rs.5.41 Million as per the Board of Survey reports of Osu Sala Outlets as at 31 December 2021 and it was Rs.5.94 Million and Rs.5.94 Million respectively in the preceding year. Although the matters such as errors in preparation of sales invoices and stock packaging, errors in computer system, mistakes occur from the staff, inconsistencies occur with the quantity contained in the label due to the issuing of small quantities of pills and capsules in by packaging and issuing were recognized that it causes stock shortages and excesses, steps had not been taken to identify the necessary measures to reduce the errors and to work in accordance with the Financial Regulations.	Comments had not been given.	The defects that cause stock shortages and excesses that occur every year should be identified and necessary measures should be taken to reduce them and actions should be taken in respect of shortages and excesses in terms of Financial Regulations .
(k)	The containers cost at Rs.35.76 Million pertaining to 10 indents which were imported by the Corporation and handed over to the Medical Supplies Division had been rejected by the Medical Supplies Division during the period from the year 2016 to the year 11 February 2022 because of Low Consignment Load. Due to the fact that the Corporation has not acted immediately to rectify these defects, a storage cost of Rs.1.17 Million had to be incurred only for a period of one	Out of the stocks cost at Rs.35.76 Million, the stocks cost at Rs.4.87 Million will be returned to the Medical Supplies Division, the Debit Notes have been issued to recover the costs related to the stocks amounting to Rs.3.56 Million from the supplier, the cost related to the stock amounting to Rs.993,877 has been settled by the supplier to the Corporation and further	Actions should be taken to minimize these additional storage costs by carrying out post-delivery operations immediately to complete the deficiencies that caused to the rejection of the relevant stock by the Medical Supplies Division.

year for storing the containers related to those 10 items.	actions will be taken in relation to the remaining stocks cost at Rs.26.34 Million.	

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Although a sales target of Rs.10,673.50 Million was expected through the sales of the Corporation for the year under review, thus the actual sale was Rs.9,430.95 Million only, a sales target of Rs.1,242.55 Million, which was 11 per cent of the expected target could not be achieved. Similarly, although a sales target of Rs.127,913.98 Million had been expected for the Medical Supplies Division , thus the actual sale was Rs.70,110.43 Million , a sales target of Rs.57,803.55 Million, which was 45 per cent of the expected target, could not be achieved. The Chairman had informed that the reasons for this were the Covid 19 epidemic situation as well as the postponement of some orders to future years and the entirely cancellation of some orders by the Medical Supplies Division.	The Covid 19 epidemic situation as well as the postponement of some orders to future years and the entirely cancellation of some orders by the Medical Supplies Division were the reasons to this situation.	Marketing plans with realistic targets should be prepared and actions should be taken in maximum to achieve the desired goals by making necessary changes in those plans according to the timely needs and changes.
(b)	As the oxygen stocks purchased for the Medical Supplies Division during the year under review were directly supplied to the hospitals by the respective supplier, the Corporation had failed to issue the relevant	Comments had not been given.	Arrangements should be made to collect the stipulated invoices from the responsible parties at the right time.

	Debit Notes because of the invoices bearing the stamp certifying their receipt by the Medical Supplies Division had not been received by the Corporation. As a result, the advance of Rs.169.26 Million paid to the supplier had not been settled even by 31 May 2022 .		
(c)	Ninety eight items with a total cost of Rs.79.23 Million were with a very short shelf life that would expire in 2022 as per age analysis of the stock-in-hand available for sale at Ratmalana Warehouse as at 31 December 2021 . Out of that, 74 items cost at Rs.43.50 Million were the unsold stock for more than a year.	Comments had not been given.	Actions should be taken to issue at the right time to wholesalers or distributors by doing constant follow-up over the lifetime of the stock-in-hand and focusing on their stock levels.

3.3 Improper Transactions

	Audit Observation	Comments of the Management	Recommendation
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(a)	The Corporation had purchased 90,000 packs of Famotidine Tablets USP (40mg) (10*10) at a cost of Rs.12.48 Million during the year under review. It was confirmed that the expiry date of 02 batches of pharmaceuticals received at the store had been changed with a pen. Actions had not been taken to reject and withdraw the stocks of all batches of this pharmaceutical as per the recommendation given by the Quality Failure Committee on 27 October 2021. As there were only 9,376 units of packs had remained at a cost of Rs.1.30 Million whereas the expiry date had been changed by 05 January 2022, it was observed that expired medicines had been sold even on the date of undertaken the supply. A demurrage further to be	A Debit Note has been issued to recover the relevant stock value from the supplier, a part of the Debit Note issued for demurrage has already been collected and the necessary arrangements are being made for the recovery of the balance.	A formal investigation should be conducted to identify the responsible parties and take necessary actions and recovery of money due from the supplier should be expedited.

	received amounting to Rs.914,057 for the 22 days delay related to this supply had not been recovered even by the date of this report.		
(b)	Since the average monthly sales volume was 1,159 packing units, although the annual sales requirement was 13,908, without considering that and although 40,000 units of packaging had to be received by the Corporation from a previous order, despite that,72,000 packing units of Levofloxacin Tablets (500 mg) of (3*10) size were ordered and 36,000 packing units had been purchased for Rs.5.52 Million in the year 2019 for the sale of the Corporation. A number of 9,092 packing units procured from previous order and 22,357 packing units out of 36,000 packing units had been failure to sell even by 28 February 2022 and due to the fact that all the 45,092 packing units had expired at that time there had been a loss of Rs.5.24 Million. However, necessary actions had not been taken to identify the responsible parties.	These measures have been taken to maintain the stock of pharmaceuticals in the institution without being zero.	Actions should be taken to conduct a formal investigation and identify the responsible parties and to make necessary arrangements.

3.4 Procurement Management

Audit Observation		Comments of the Management	Recommendation
(a)	The contract registration certificate under the Public Contracts Act was not obtained from the supplier at three instances of purchasing pharmaceuticals by incurring Rs.373.20 Million during the year under review and a Technical Evaluation Committee consisting of only three members was appointed instead of a technical evaluation committee of 05 members had been appointed for the evaluation of procurements exceeding Rs.50 Million as per the procedure followed by the Corporation regarding the appointment of Technical Evaluation Committees.	Comments had not been given.	The procurement management should be carried out in accordance with the Government Procurement Guidelines and its amendments as updated from time to time.

(b)	Identified as an emergency procurement with the Covid 19 pandemic by following the direct purchase method, a sum of Rs.14.27 Million had been spent for the purchase of 10,000 Safety Goggles at Rs.1,400 each and 200 Safety Goggles were purchased at Rs.1,350 each for the sale of the Corporation in the year 2020 by carrying out the procurement based on the price quote submitted by one supplier without performing any technical evaluation . Although an advance of 20 per cent of the total contract value can be paid to the supplier according to the Guideline 5.4.4 of the Government Procurement Guideline, on the contrary, Rs.07 Million had been paid to the supplier as a 50 per cent advance. Although the Seals Safety Goggles should have been supplied as per the quotation, purchase order and goods received note issued by the supplier, instead, it was revealed at the physical examination carried out that 10,200 Swimming Goggles were provided. It was revealed at the physical examination carried out 09 and 24 November 2021, due to purchase was made without proper identification of necessity and without carrying out a proper sales forecast, only 54 out of 10,200 Swimming Goggles were sold at Rs.1,610 each and 9,945 Swimming Goggles had remained with a total cost of Rs.13.92 Million and there was a shortage of 201 goggles with a total cost of Rs.281,400 .	Comments had not been given	A formal investigation should be conducted in this regard and further actions should be taken.
(c)	A number of 5,000 sets of Personal Protective Equipment (PPE) had been purchased at a cost of Rs.21.49 Million in the year 2020 for the necessity of Medical Supplies Division. Neither the Medical Supplies Division nor the Corporation had prepared requirement specifications for PPE kits and the purchase was made on the Proforma Invoice presented by one supplier without obtaining any kind of quotation and carrying out a technical	Comments had not been given.	-do-

	evaluation. Out of the 5,000 PPE sets ordered, although a stock of 2,000 sets had been received by the Corporation and sent to the Medical Supplies Division, acceptance of the relevant stock had been refused stating that only “Isolation Gown” were supplied and it was mentioned as “PPE Set” in the order submitted by the Medical Supplies Division. Despite that, although the second batch of 3,000 sets of PPE was also received from the supplier and sent to the Medical Supplies Division that stock was also rejected stating the same reason as before. The Corporation had incurred a loss of Rs.29.62 Million due to inability to reimburse a sum of Rs.21.49 Million paid to the supplier and the service fee of Rs.8.13 Million from the Medical Supplies Division. It was observed that there were 4,997 sets of PPE in stock and a shortage of 03 sets as per the physical inspection carried out during the year under review.		
(d)	The Medical Supplies Division had purchased 1,560 units of Papaverine HCL injection 60mg/2ml injection at a cost of Rs.68.59 Million, that had identified as a requirement for the year 2021 . Since only one bidder had submitted bids according to the international open competitive bids conducted by the corporation for this procurement and since the bid for a unit was Rs.40,868.98 though the estimated price of a vaccine unit was Rs.255.07, though the quotations should have been called again, without doing so, the approval had been given by the Departmental Procurement Committee for the purchase of 3,125 vaccine units for Rs.127.72 Million at Rs.40,868.98 per unit of this vaccine. Although a Technical Evaluation Committee consisting of 05 members should be appointed by the Ministry of Health to evaluate procurements exceeding Rs.50 Millionas per the procedure followed by the	Comments had not been given.	-do-

Corporation regarding the appointment of Technical Evaluation Committees, a Technical Evaluation Committee appointed by the Corporation consisting of only 03 people had evaluated the bids. Although the Medical Supplies Division had informed that the order should be placed after considering the existing stock level before opening the Letters of Credit or after obtaining the approval of the Medical Supplies Division, the Corporation had not done so. Likewise, although letters of credit should have been opened only for 40 per cent of the total amount of vaccine units or 1,250 vaccine units as per the Decision of the Departmental Procurement Committee because the annual use was 650 units of vaccine, the Letters of Credit amounting to Rs.68.73 Million had been opened for 1,563 vaccine units in contrary to the approval of the Departmental Procurement Committee. Out of the 1,560 vaccine units purchased on 18 July 2021, a number of 1,421 vaccine units had remained by 20 August 2022 and it was observed that they will expire in February 2023 . Actions had not been taken to register the contract under the General Contracts Act No. 03 of 1987 and obtain the Registration Certificate to the Corporation.

3.5 Shortcomings in Contract Administration

Audit Observation		Comments of the Management	Recommendation
(a)	A sum of Rs.724,936 had been paid for the installation of an elevator for Colombo 07 Osu Sala in 2015 and although it was appeared under work-in-progress as at 31 December 2021, although a period of 07 years has passed, the installation works of the elevator has not been completed.	Since that elevator has not matched with the specification given as per the test reports submitted by the supplier for the elevator, it cannot be undertaken , also failed to submit the "Whole Test Certificate" for the elevator , the supplier company was instructed to install an elevator conforming to the specifications and although it has agreed to that, the supplier company has not taken actions to solve the problem.	Arrangements should be made to recover the security advance.