State Pharmaceutical Manufacturing Corporation - 2022

---

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the State Pharmaceutical Manufacturing Corporation for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the corporation as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditor's Responsibility 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 opinion.

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

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

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

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

- 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 Receivable and Payable Accounts

1.5.1 Receivable Money

Audit Observation	Comment of the Management	Recommendation
The balance of Rs.14,030,172 that remained due over a year for the pharmaceuticals supplied to the State Pharmaceuticals Corporation, could not be recovered even by 29 May.	That we expect to make a strong effort in the year 2023 to settle all overdue invoices.	Continuous follow up should be done to collect arrears.

1.5.2 Payable Money

Audit Observation	Comment of the Management	Recommendation
A balance of Rs. 3,593,491,982 remained as payable to 04 joint ventures as at 31 December 2022 for the supply of finish goods, and 58 per cent thereof amounting to Rs. 2,080,068,385 had exceeded the 50 days period granted to settle the credit limits.	Due to the lack of funds from the treasury to our institution, we are unable to pay the joint ventures. Therefore, their payment period may exceed 50 days.	Action need to be taken to settle the creditors within the stipulated period of time.

1.6 Non-compliance with Laws, Rules, Regulations and management decisions etc.

	Reference to the Laws, Rules and Regulations	Non-compliance	Comment of the Management	Recommendation
(a)	Section 06(2) (a) of the Gratuity Act No. 12 of 1983.	Allocations for gratuity should be made based on half a month's, wage or salary for each year of completed service computed at the rate of wage or salary last drawn by the employee. Nevertheless, allocations for gratuity had been made based on the monthly salary of the employee. As such, an overpayment of Rs. 2,050,793 had been paid as gratuity to 05 officers who retired during the year under review.	That the financial manual including all the payments has been approved by the board of directors and that the payments have been made accordingly.	Provision and payment of employee gratuity should be done in accordance with the provisions of the relevant sections of the Act.
(b)	Financial Regulations 388 of the Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	A register containing information about all the cheques being posted should be maintained, but it had not been done so.	A schedule including details of all cheques sent by post is currently maintained in the computer.	Should be act in accordance with Financial Regulations.

(c)	Paragraph 02 of the Public Administration Circular No. 6/97 dated 03 February 1997.	The period of acting in capacity for employees should be subject to a maximum of 03 months. Nevertheless, an employee had been appointed to act in the post of Deputy General Manager- Formulation & Research for a period of 05 consecutive years.	Applications were called on several occasions to fill up the vacancies, but as there were no suitable candidates for the post, it has been submitted for the approval of the Public Enterprises Department (PED) to carry out the necessary recruitment activities.	Should be act in accordance with circular provisions.
(d)	Public Administration Circular, No. 30/2008 dated 31 December 2008.	The maximum amount of distress loan payable to an officer should not exceed Rs. 250,000 but a sum totaling Rs. 4,677,100 had been paid to 49 officers during the year under review in excess of that limit.	Financial Manual including all the payments has been approved by the board of directors and that loan advances have been made accordingly.	Until a Code of Establishment specific to the corporation is prepared and approved by the Treasury, Should be complied with the Establishment Code of the Democratic Socialist Republic of Sri Lanka and the Public Administration circulars and payments made accordingly.
(e)	Public Enterprises Circular, No. PED 09/2022 dated 21 December 2022.	Only a sum of Rs. 20,000 is payable as bonus per annum, but bonuses totalling of Rs. 3,130,193 had been paid in excess of the approved limit.	Since the financial manual including all payments has been approved by the board of directors, this special bonus was made to further encourage the employees.	Should be act in accordance with the Circular provision.

(f)	Section 03 (x) of the National Budget Circular, No. 03/2022 dated 26 April 2022.	Despite being informed that loans granted to the staff grade officers under Advances to Public Officers Account be suspended until 31 December 2022, distress loans valued at Rs. 3,980,625 had been granted to 11 staff grade officers.	Since the financial manual including all payments has been approved by the board of directors, this special bonus was made to further encourage the employees.	It should be done in accordance with the relevant budget circulars and not the financial manual.
(g)	Letter No. DMS/E4/10/4/090/2 of the Department of Management Services dated 09 March 2009 addressed to the Secretary to the Ministry of Health, Nutrition and Indigenous Medicine.			
	(i) Paragraph 03	(a) Although approval had been granted to pay a sum of Rs. 2, 000 per month for an employee as an incentive for attendance, payments had been made up to Rs. 3,500.	Financial manual containing all the payments has been approved by the board of directors and that the payments have been made accordingly.	The approval of the Management Services Department shall be obtained where the relevant occasions before implementing the decisions of the board of directors. Arrangements should be made to obtain coverage approval for allowances already paid

	(b) If attendance incentives are paid, the remaining leave may not be paid at the end of the year, Rs. 11,960,822 was paid for the remaining leave at the end of the year under review for the employees who had paid the attendance incentive.	Financial manual containing all the payments has been approved by the board of directors and that the payments have been made accordingly.	The approval of the Management Services Department shall be obtained where the relevant occasions before implementing the decisions of the board of directors. Arrangements should be made to obtain coverage approval for allowances already paid.
(ii) Paragraph 04	A gift voucher worth Rs. 6,000 may be given per person only once a year during new year and Xmas season. However, gift vouchers costing Rs. 7,392,062 had been given to permanent employees and trained employees each receiving Rs. 25,000, Rs. 12,500 respectively. Additionally, a sum of Rs. 12,500 had been spent per permanent employee whilst a sum of Rs. 6,250 had been given for other employees for purchasing school text books and instruments thus spending a sum totaling Rs. 5,087,500 on gift vouchers.	Financial manual containing all the payments has been approved by the board of directors and that the payments have been made accordingly.	The approval of the Management Services Department shall be obtained where the relevant occasions before implementing the decisions of the board of directors. Arrangements should be made to obtain coverage approval for allowances already paid.
(iii) Paragraph 06	A monthly allowance of Rs. 1,000 may be paid to an employee	Financial manual containing all the payments has been	The approval of the Management Services

		only if he attends all the shifts. However, a shift allowance totaling Rs. 6,399,800 had been paid during the year under review to employees in the categories of executive, training executive and non-executive each receiving a sum of Rs. 400, Rs. 300, and Rs. 200 per shift. The value of overpaid shift allowance amounted to Rs. 3,326,800.	approved by the board of directors and that the payments have been made accordingly.	Department shall be obtained where the relevant occasions before implementing the decisions of the board of directors.
(h)	Decision No. BP/30/15 of the Board of Directors dated 04 June 2015 and Decision No. BP/62/22 of the Board of Directors dated 22 September 2022.	The push bike loan paid to the employees of the corporation had been increased from Rs. 3,000 to Rs. 75,000 with effect from 04 June 2015. However, Treasury approval has not been obtained in that connection even up to this day.	Financial manual containing all the payments has been approved by the board of directors and that the payments have been made accordingly	Arrangements should be made to obtain Treasury approval.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 965,472,451 and the corresponding profit in the preceding year amounted to Rs. 1,006,185,465. Therefore, a deterioration amounting to Rs. 40,713,013 that is 4.05 percent of the financial result was observed. The main reasons for the deterioration were increasing selling and distribution expenses by 333 per cent and tax expenses by 171 per cent.

2.2 Trend Analysis of Major Expenditure Subjects

The selling and distribution expenses of the previous year and the year under review were Rs. 109,186,789 and Rs. 472,762,064 and compared to the previous year, the expenditure had increased by 333 per cent. It was mainly due to the allocation of bad debt provision of Rs. 312,417,918 during the year under review.

2.3 Ratio Analysis

The gross profit ratio and net profit ratio of the year under review had decreased by 4.4 per cent and 5 per cent respectively compared to the previous year and there was an increase of 16 times in debtor turnover ratio and a decrease of 17 days in debt recovery time.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	Eighty-two items of non-current assets costing Rs. 21,962,722 as at 31 December 2022 had not been subjected to the physical survey conducted for the year under review. Those items had not been shown as shortages as well.	Those deficiencies will be overcome and proper steps will be taken in the year 2023.	All non-current assets of the corporation should undergo physical survey and deficiencies and excesses should be identified and reported.
(b)	As for the recognition of fixed assets, the corporation did not have a policy to recognize a value based on which an asset would be considered a fixed asset.	That a policy for property, plant and equipment will be introduced in the year 2023 by recommending criteria for identifying all asset categories owned by the corporation.	A policy for machinery and equipment should be introduced in the year 2023.
(c)	According to the financial statements, the balances of two creditors as at 31 December 2022 had not been reconciled with direct confirmation balances and the creditors balance were understated by Rs. 1,285,995.	That the confirmed balances are not correctly stated and that the invoices mentioned as payable have not yet been received by the corporation.	At the end of the year, arrangements should be made to obtain correct balance confirmations related to the balance to be made.

3.2 Operational Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	The total manufacturing requirement identified in accordance with the marketing plan	In most of the months, the target of 09 months of the year has been achieved	The full effort should be made to reach the targets of the annual sales plan and the

	and the manufacturing plan, indicated a difference of 777.576 million units of 71 pharmaceuticals.	within a percentage of 10 per cent. 25 per cent met the target in all months. That although the corporation's drug production was sufficient to meet the demand of the medical supply sector, it was unable to meet the overall demand of the medical supply sector regarding some medicines.	monthly production plans should also be adhered.
(b)	The total requirement of 29 pharmaceuticals included in the marketing plan provided by the marketing division of the corporation for the year 2022, was 2,545.180 million units whereas the actual production of those 29 pharmaceuticals stood at 1,408.081 million units only during the year under review. As such, a shortage of 1,137.099 million units had been observed between the required production and the actual production.	In the year 2021, the institute produced 3043.5 million tablets and capsules and in the year 2023 it grew to 3302.1 million units of tablets and capsules. Due to the economic crisis in Sri Lanka in the year 2022, the forecasted production and supply plans of medicine have changed drastically.	Realistic production and marketing plans should be prepared to produce products with maximum efficiency and effectiveness.
(c)	For the period 2018-2022, contribution of the joint ventures made in each year to the sales corporation, had increased, but contribution of the products of the corporation made to the sales of the corporation had dropped. As for the year 2022, contribution of the joint ventures made to the total revenue stood at 52.34 per cent whilst the products of the corporation had contributed to the total revenue by 47.66 per cent.	Joint venture with State Pharmaceutical Manufacturing Corporation (SPMC) was started in late 2017. Although Cabinet approval was received for 15 people, out of that, one joint venture in 2017 and 02 joint ventures in 2018 have provided drugs under the SPMC logo. In 2023, tablets and capsule products are to be supplied through Sands Active, and in 2024 Sands Active is to supply Cephalosporin drugs and insulin drugs through Koggala Premium. Accordingly, sales revenue	Efforts should be made to increase the existing production capacity

		will further increase through joint ventures.	
(d)	Fifteen pharmaceuticals manufactured by the corporation had been priced at values less than the production cost. As those pharmaceuticals had been sold at prices less than the production cost, the corporation had sustained a loss of Rs. 230,054,679 during the year under review.	While selling the State Pharmaceutical Manufacturing Corporation (SPMC) drugs through the company's sales agents, cost analysis is usually done only once a year and the price of SPMC products is revised based on the existing cost at that time.	It should be engaged as not to cause loss to the Corporation and the Price should be decided at least cover the cost of production.
(e)	A profit margin of 26 - 81 per cent of the production cost had been added in pricing certain pharmaceuticals manufactured by the corporation.	Considering the prices of certain products, even if the cost of those products shows a high profit margin, because the market price of other competitive products for these products is high, it is beneficial for the consumer to purchase drugs at the prices set by the State Pharmaceutical Manufacturing Corporation.	Drug prices should be decided considering social welfare
(f)	Out of the pharmaceuticals ordered by the Medical Supplies Division for the year under review, the corporation was unable to supply 122.53 million units of pharmaceuticals the sales value of which amounted to Rs. 723,571,830 due to reasons such as, shortage of pharmaceutical ingredients, lack of machine capacity, and technical issues in the manufacturing process.	At present, the State Pharmaceutical Manufacturing Corporation has expanded its manufacturing facilities for the second time through the JICA project and through the dedication of the employees and the release of new products to the market; the manufacturing plant has now reached its optimal production capacity.	To protect its market share by making best efforts to fulfill the orders of Medical Supplies Division while minimizing the existing disruption
(g)	The 2,969.65 million units of pharmaceuticals with a sales value of Rs. 13,927,795,651 supplied to the Medical Supplies Division for the year under review, comprised	That factor was taken into consideration.	The corporation must select most favorable production mix while engaging as at its maximum production efficiency.

	only 2,368.29 million units of pharmaceuticals provided from the products of the Corporation the sales value of which amounted to Rs. 5,365,222,678 whilst the balance 601 million units of pharmaceuticals of which the sales value amounted to Rs. 8,562,572,974 were provided through joint venture supplies. However, considering the fact that the quantity of pharmaceuticals supplied by joint ventures was outnumbered by the quantity of pharmaceuticals supplied to the Medical Supplies Division, the State Pharmaceuticals Manufacturing Corporation contributed considerably to the economy of the country.		
(h)	According to the audit test check, payments made in favour of the cheques presented to the corporation by the distributors relating to the sales, had been halted. As such, cheques valued at Rs. 1,915,999 pertaining to 03 invoices, had been dishonored. Accordingly, the distributors claimed for trade discounts though, the corporation had been unable to recover the monies from them in a timely manner.	That we will work to minimize such circumstances in the future.	Efforts should be made to minimize such situations
(i)	A number of 71.186 million units of pharmaceuticals and 38 other items valued at Rs. 1,408.46 million that had not been included in the marketing plan prepared by the corporation for the year under review, were sold in the year 2022.	Actual sales volumes of these items due to orders received from the medical supply sector and demand in the market have varied from their estimated values.	The marketing plan should be prepared accordingly
(j)	Sales targets relating to 351.907 million units of 30 pharmaceuticals could not be achieved in the year 2022, but due to changes in prices	Due to the increase in the price of raw materials, the prices have to be increased. At the beginning of the year	One should adapt to the situation while also considering public welfare.

	of those pharmaceuticals, a revenue of Rs. 2,622.10 million had been earned in excess of the revenue estimated in the marketing plan.	2022, the price of one dollar which was Rs.203 increased rapidly and increased to around Rs.380. Accordingly, we had to pay higher prices for purchasing raw materials. Due to the increase in the dollar, the National Medicines Regulatory Authority (NMRA) has increased the maximum retail price of these products on several occasions.	
(k)	Sales targets valued at Rs. 101,456,371 set for 16 of 48 distributors by the corporation for the period from July – December 2022, could not be achieved.	The minimum monthly sales target set by the pharmaceutical manufacturing corporation for distributors is two million rupees, but due to the limited manufacturing facilities of the State Pharmaceutical Manufacturing Corporation, the Medical Supplies Division (MSD) gives priority to orders in manufacturing, so the marketing department receives very limited stock to meet the open market demand.	Efforts should be made to increase production capacity.
(l)	Approval had not been granted for some of the invoices issued by the marketing division. Although certain invoices had not been signed after being checked, approval had been granted thereon.	Due to the limited number of employees in the sales department, it was not possible to check the invoices.	All invoices should be checked.

3.3 Procurement Management

	Audit Observation	Comment of the Management	Recommendation
(a)	Neither a Procurement Plan nor a procurement time table had been prepared by the procurement entity	As indicated by the audit, the inclusion of the procurement plan and procurement	Post procurement activities should be carried out in accordance with the

	contrary to guidelines 4.2.1 and 4.2.3 of the government procurement guidelines with respect to 06 instances in which pharmaceutical ingredients had been purchased incurring an expenditure of Rs. 492,452,048 during the year under review. Certificate of contract registration had not been obtained from the supplier in accordance with Public Contract Act.	schedule in the procurement files is currently being done.	recommendations of the Procurement Committee as well as the order conditions while following the guidelines of the Government Procurement Guideline.
(b)	The shelf life of 600 units of the item, Chloroquine Phosphate BP, procured at an expenditure of Rs. 6,698,610 as per instructions of the Medical Supplies Division during the period of 2020 in which Covid-19 had spread severely, exceeded for over 02 years since those items had been received by the pharmaceutical ingredients store. Stocks of this pharmaceutical ingredient are scheduled to be expired by 31 March 2025, and re-exporting the stock could not be done even by the date of audit.	Along with recommending the use of Chloroquine Phosphate medicine for the Covid-19 epidemic, we immediately procured 600 kg of Chloroquine Phosphate ingredients as per the instructions of the Medical Supplies Department. However, this stock could not be used because the drug was not used as expected.	Arrangements should be made to re-export this drug stock before it becomes obsolete or to supply this manufactured drug or raw material stock to a local or foreign party as soon as possible.
(c)	A stock of E/H Gelatine Caps No.01 Bright Orange/Black, marked with “DHS” emblem and purchased at the value of Rs. 1,261,032 following an order placed by the medical supplies division for Cloxacillin Sodium BP 250mg, had become slow-moving as the order had been suspended by the Medical Supplies Division without prior notice. The said stock remained expired even by the date of audit.	As the stock of empty capsules cannot be used to manufacture Cloxacillin Sodium BP 250mg for open market as it is DHS stamped, this stock could not be used until expiry. Since it is currently expired, it will be formally disposed of in the future and that DHS will not order printed blank capsules after this incident in order to prevent such damages	Management should work to minimize the damage.

3.4 Management of Joint Ventures

	Audit Observation	Comment of the Management	Recommendation
	The corporation had entered into agreements in the years 2018 and 2019 with 17 potential investors for the supply of pharmaceuticals under the proposal to establish joint ventures between the State Pharmaceuticals Manufacturing Corporation and private investors in order to expand the process of manufacturing pharmaceuticals locally. Nevertheless, only 15 joint investors had liaised with the corporation. The following observations are made on the manner in which the corporation had performed transactions with those joint ventures.		
(i)	Pharmaceuticals had been purchased only from 06 investors even by 31 December 2022 although agreements had been entered into with 15 investors for the supply of pharmaceuticals	Out of these 15 investors, only six investors had the necessary manufacturing facilities and qualifications to supply medicines to the medical supply sector.	Actions should be taken as recommended by the official committee appointed by the Council of Ministers and the status of other investors who have entered into agreements should be followed up regularly.
(ii)	The accounting policy relating to the joint ventures that pharmaceuticals would be supplied to the Medical Supplies Division by adding a profit margin of 06 per cent to the purchasing price, had been disclosed in the financial statements, but it was revealed not to be so in the audit test check conducted on 17 items of pharmaceuticals purchased during the first half of the year 2022 from an investor with whom an agreement had been entered into.		

(a) A service fee of Rs. 2,490,749 had been earned with in respect to 02 items of pharmaceuticals worth Rs. 14,979,403 equivalent to 17 per cent of the invoiced price, and such items had been sold to the Medical Supplies Division at the value of Rs. 17,470,153. Thus, the 6 per cent profit being the policy on earning profits with respect to the joint venture purchases of the corporation had been exceeded and those pharmaceuticals had been sold to the Medical Supplies Division by the corporation at a profit of 11 per cent. According to the cost specifications presented to the corporation by the manufacturer of this item, the total manufacturing cost of the said stock amounted to Rs. 9,037,401, and hence, it was revealed that a profit margin as high as 65 – 66 per cent had been earned by the joint venture.	In relation to the 2 related items, the sale by the State Pharmaceutical Manufacturing Corporation to the medical supplies division has been considered according to the price committee approval held on 01 October 2020. But the related joint venture has invoiced their items based on the price committee prices held on February 6 and February 10, 2020.	Relevant transactions should be carried out as recommended by the official committee appointed by the cabinet as well as according to the accounting policies disclosed in the financial statements.
(b) The invoice value of 13 pharmaceuticals purchased amounted to Rs. 65,962,584 and with a service fee equivalent to 17 – 26 per cent amounting to Rs. 11,058,498 being added thereto, those pharmaceuticals had been sold to the medical supplies division at a sum of Rs. 77,021,082. As such, the corporation had earned profits in the range of 11 – 26 per cent in excess of the 06 per cent profit margin. Cost of those pharmaceuticals amounted to Rs.	In consideration of the 17 related drug items, the sale by the State Pharmaceutical Manufacturing Corporation to the Medical Supplies Division is based on the price committee decision held on 05 October 2021. But the invoices have been prepared by the relevant joint venture at the prices as per the price committee decision held	Relevant transactions should be carried out as recommended by the official committee appointed by the cabinet as well as according to the accounting policies disclosed in the financial statements.

	69,934,852 as per cost specifications of the manufacturer, and it was further revealed that the joint venture had earned loss ranging from 2 – 17 per cent. As such, it was not satisfactory in audit as to whether the corporation had taken follow up action on the accuracy of cost specifications presented to the corporation.	on 05 April 2021.	
(iii)	As had been recommended by the official committee appointed by the cabinet in order to implement the joint venture proposal, quality control, management and technical assistance for the manufacturing process of the investor should have been provided by the corporation, and 10 per cent of the shares of the investor should have been issued to the corporation on that behalf. Nevertheless, only 07 investors had issued their shares to the corporation. Contrary to the agreement, the MediCom (Pvt) Ltd, an investor with whom the corporation had performed transactions in the year 2022, did not issue 10 per cent of its shares to the corporation even up to the date of audit on 31 December 2022.	That the necessary documents for the issuance of share rights certificates are being prepared.	Actions should be taken as recommended by the official committee appointed by the cabinet.
(iv)	Action has been taken to purchase pharmaceuticals under the SPMC brand name from institutions named by the directors of the corporation such as Sands Active (Pvt) Ltd and Yaden Laboratories (Pvt) Ltd.	Directors have been nominated for the companies that have issued shares under contract with the State Pharmaceutical Manufacturing Corporation (SPMC). That at present medicines is being supplied to the medical supplies division	Arrangements should be made to purchase medicines from the joint ventures that have completed construction of manufacturing plant and arrangement should be made to purchase their products from other joint ventures as soon as the construction of

		under the SPMC brand.	manufacturing plants is completed.
(v)	04 joint ventures had received share certificates related to the 10 percent share ownership to be given to the corporation and the corporation had purchased medicines from only two businesses since the beginning of the year 2023.	The construction work of the manufacturing plant and the obtaining of certificates from the Medicines Regulatory Authority (NMRA) have now been completed and the purchase of medicines will be done from the beginning of the year 2023.\	As the manufacturing plant construction works and obtaining certificates from the Medicine Regulatory Authority (NMRA) etc. have been completed now, drug purchases should be made from the beginning of the year 2023.

3.5 Deficiencies in Contract Administration

	Audit Observation	Comment of the Management	Recommendation
(a)	As the facilities of the state pharmaceuticals manufacturing corporation, the sole institution in Sri Lanka manufacturing pharmaceuticals, had become insufficient to meet the demand, it was proposed to establish a new manufacturing plant in Millewa, Horana in order to expand the capacity of the corporation. It was identified that the pharmaceuticals manufacturing industry had the potential to bring economic benefits to Sri Lanka in the contexts such as, a considerable amount of foreign exchange was spent by the government for importing pharmaceuticals, other consumables and medical equipment, possibility of attracting foreign investments directly, earning foreign exchange through export, and saving foreign exchange through import substitutes. Accordingly, approval of the cabinet was received on 08 March 2021 to implement the	Here, 5 categories of pharmaceutical manufacturing plants were identified and it was proposed to start 3 manufacturing plants in the first phase and to plan the other manufacturing plants in the second phase. In this regard, the approval of the board of directors was obtained for 5 factories.	Priority should be given to expedite such projects, which are of great service to the country and nation.

	project named “Lotus Pharma” in view of expanding the capacity of State Pharmaceuticals Manufacturing Corporation through a new manufacturing plant, and a land in extent of 65 acres located in Millewa, Horana, was acquired at a cost of Rs. 322.4 million. Three officers were appointed on contract basis for the project, and a sum of Rs. 354.96 million was approximately spent on the project as at 31 December 2022. However, the project does not progress as scheduled, and hence, all the parties should take measures to prioritize such projects capable of bringing enormous benefits for the country. Attention of the board of directors as well as other parties responsible should be brought to expeditiously complete the project so as for the nation to be benefitted.		
(b)	Construction works of a two-storied building to be used for storing manufactured pharmaceuticals had been commenced on 21 September 2018, and a sum of Rs. 44,739,833 had been spent thereon as at 31 December 2022. Although the constructions should have been completed by 21 August 2019 in accordance with the initial agreement, the construction process had delayed due to various reasons. Furthermore, in case of the contract agreement being breached by the contractor, a performance security not less	We have notified the contract company through the letter dated 27 September 2022 to extend the performance security and advance payment bond, but due to the change in the prices of this contract and the project was suspended until the Ministry's Procurement Committee gives a decision, The contractor has not update the performance security and advance payment bond.	Once resumed the contract, contract administration activities should be carried out in a formal manner in accordance with the Government Procurement Guidelines and efforts should be made to properly manage and supervise those activities.

than 05 per cent of the estimated contract sum should have been obtained to safeguard the procurement entity, and in terms of Section 5.4.8 Works: (b) of the Procurement Guidelines, the performance security should be valid till twenty-eight (28) days beyond the intended completion date. Nevertheless, the performance security, so furnished, had expired on 04 September 2022. Action had not been taken to extend the validity periods of the performance security and advance bond of this contract the works of which could not be completed as at the date of audit.		

3.6 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
The following observations are made on the management of human resources of the Corporation.		
(i) The approved cadre of the Corporation stood at 427 whereas the actual cadre was 323 as at 31 December 2022. Appointments could not be made up to 31 March 2023 to several significant posts including 02 posts in the Formulation & Development Department as well as the Quality Control Division which were crucial in the manufacturing process.	The approval has been requested.	Arrangements should be made to recruit.
(ii) Schemes of Recruitment for 08 approved posts could not be	That a recruitment procedure for these	Recruitment procedures should be prepared and

prepared and approved by the Department of Management Services even by 25 May 2023.	posts has been prepared and submitted to the approval of the Department of Management Service.	make arrangements to obtain the approval from the Management Service Department.

4. Accountability and Good Governance

4.1 Annual Action Plan

	Audit Observation	Comment of the Management	Recommendation
(a)	Action had not been taken to seek approval from the board of directors for the Action Plan.	The Action Plan for the year 2023 will be submitted subject to approval of board of the directors.	Action need to be taken to obtain the approval from board of directors.
(b)	The Corporate Plan for the period 2022-2026 comprising the financial forecast, had been presented to the Director General of the Department of Public Enterprises by the Secretary to the Line Ministry along with the Action Plan and the annual budget for the relevant year. Nevertheless, the Corporate Plan for the period 2022-2026 had not been approved by the Director of Public Enterprises even by 04 May 2023. Considering the fact that activities to be executed within timeframes given in the Corporate Plan are represented in the Action Plan, performance of the activities relating to the period could not be evaluated as the Corporate Plan had not been approved.	The Corporate Plan and Action Plan related to year 2023 have already been prepared by our organization and that Job has been completed. But It has been informed that it is being further studied by the Treasury and various amendments are being made.	The Plan should be prepared in accordance with the Public Enterprise Department Circular No.01/2021 dated 16, November 2021.