State Pharmaceutical Manufacturing Corporation - 2023

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1. Financial Statements

1.1 Opinion

The audit of the financial statements of the State Pharmaceutical Manufacturing Corporation for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 information of the 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 2023 and 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

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 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 Responsibility for the Audit of Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation *;*
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Non-compliance to Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules and Regulations		Non-compliance	Comments of the Management	Recommendation
(a)	Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka				
	(i)	F.R. 103,104,105	Investigations were conducted regarding a financial loss of Rs. 1,551,283 in the manufacturing section as per the Financial Regulations, but the action had not been taken to recover the loss incurred to the government.	Action will be taken to recover the loss.	Action should be taken to recover the financial loss.
	(ii)	As per section iii of Chapter 2 of the F.R. 3	Although it was stated that before obtaining the approval of the Cabinet of Ministers, the government institutions should identify the project and prepare a feasibility study report and submit it to the relevant Ministry after receiving its recommendation as well as recommendations from other relevant authorities, such a feasibility study had not been done in	Due to being engaged pharmaceutical manufacturing, only a financial feasibility study was submitted for approval when the project was initially proposed.	A comprehensive feasibility study should be done before starting a project

		relation to the Lotus Pharma project.		
(b)	Paragraph 2 of Public Administration Circular No. 6/97 dated 03 February 1997	An officer had been appointed on Acting basis for the post of Deputy General Manager, Formulation Research and Development for more than 05 years continuously. In addition, two officers had been appointed for the posts of Deputy General Manager, Human Resources and Deputy General Manager, marketing on acting basis since more than a year. Although applications had been called for the dual positions of Deputy General Manager, Formulation, Research and Development and Deputy General Manager, Quality Control on 04 occasions in the period from 2018 to 2021, it had not been possible to recruit a suitable person.	Arrangements are being made to conduct interviews for the post of General Manager for which applications have been called and it was decided in the management committee meeting that it is appropriate to call applications for the post immediately after the recruitment for the post of General Manager.	Action should be taken as per the circular provisions.
(c)	3.4 (X) of the Operations Manual for State-Owned Enterprises (SOE) dated 16 November 2021 and paragraph VI of Management Services Circular No. 02/2020 dated 26 October 2020.	Even though formal succession plan should be prepared to fill the relevant vacancies when the employees of the approved staff retire, action not been taken accordingly.	A succession plan will be prepared in future.	Action should be taken as per the circular provisions.
(d)	Paragraph 2.6 of the Department of Public Enterprises	A Director Board	According to the	

	Circular No. 01/2021 dated 16 November 2021 (Guidelines on Corporate Governance for State Owned Enterprises)	Secretary had not been recruited.	instructions of the Management Services Department, the necessary activities are being carried out to fulfill the service requirement of the position of Director Board Secretary by an external service provider.	Action should be taken as per the circular provisions.
(e)	Section 2.8 of the FIDIC guidelines for the selection of consultants and section 4.6 of the Guidelines for the selection and employment of consultants of August 2007.	The Agency providing consultancy services for the Penicillin Zone Development Project had not submitted the Professional Liability Insurance Certificate to cover the risk arising from professional negligence.	Separate professional liability insurance has not been obtained for the World Bank project as Meridian institute has provided a bank guarantee of US$ 50,000 and a performance bond of US$ 19,285 as professional liability insurance for the SPMC Pharma project.	Professional liability insurance should be obtained for both projects.
(f)	Board of Directors' Decision No. BP/30/15 dated 04 June 2015 and No. BP/62/22 dated 22 September 2022	Cycle loans paid to employees had been increased from Rs. 20,000 to Rs. 75,000 without the approval of the Director General of the Department of Public Enterprises	A letter has been sent to the Director General of the Department of Public Enterprises regarding allowances seeking approval for all the revised payments.	Action should be taken as per the circular provisions.
(g)	Financial Manual of the Corporation	Difficult working condition allowance, festival advance allowance (10,000 to 25,000), book purchase allowance (12,500 to 15,000) had been paid in excess of the approved	A letter has been sent to the Director General of the Department of Public Enterprises seeking approval for all the revised payments.	Action should be taken as per the circular provisions.

			allowance mentioned in the financial manual.		
(h)		Agreement for the joint ventures			
	(i)	Section No. 5.2.4	Although the investors should start the construction activities of their plants within 03 months after signing the agreement, the Corporation had not received confirmation on the readiness of 08 investors to supply the relevant products.	Construction of the plants of the investors who have established joint ventures were observed and Greenthough institute has already informed to visit their factories to investigate the construction work.	It should be followed up whether the construction work of its factories is carried out as per the agreement.
	(ii)	Section No. 10	According to the selected sample, the performance security offered by the supplier had expired before supplying 978,587 vaccines worth Rs. 362,851,044 to the State Pharmaceutical Manufacturing Corporation and the corporation had failed to review regarding that and extend the performance guarantee.	Even if performance securities expire, cannot recover their value without their true copies. All securities are returned at least one month after the last delivery date of the respective item.	Action should be taken to maintain a performance security valid for up to 28 days after the supply of the Pharmaceutical has been completed.
	(iii)	Section No. 2.1.1	Although a joint venture has issued 4,111,111 shares equal to 10 percent of its share capital to the corporation, it had not been disclosed under the schedule of the annual report issued for the year 2022 until now.	As the 2022 annual report has been submitted to the Parliament, action will be taken to present it correctly in the annual report for the year 2023.	Information about all the shares issued by the joint venture should be disclosed in the annual report.
	(iv)	Section 1 of the Schedule 1	There has not been price review for the vaccines provided by the joint venture from the second	Although the office of the Secretary to the Ministry of Health has been	Both the parties should be arranged to make price revisions as per section 1of

	half of the year 2023 until now.	requested for a price committee meeting to revise the price, response has not been received yet. Further, a price committee meeting is been requested in this regard.	schedule 1 in the the agreement.

1.6 Non-compliance to the Tax Regulations

	Audit observation	Comments of the Management	Recommendation
(a)	According to paragraph 7(g) of the Inland Revenue Circular No. SEC/2023/E/01 dated 29 September 2023, the Corporation had not taken action to obtain a primary employment statement and a dual employment statement for the Director Board members and advance personal tax reduction in relation to that was not done.	A primary employment statement of the Director Board members will be obtained and tax will be collected in future according to tax table No. 07.	Action should be taken as per the circular provisions.
(b)	According to section 8(1) of the Inland Revenue Department Circular No. SEC/2022/E/3 dated 23 December 2022, the entity has not register as a withholding tax sub-agent.	Action will be taken to registration with the Inland Revenue Department as a relevant withholding tax agent	Action should be taken as per the circular provisions.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 1,518,555,306 and the respective profit in the preceding year amounted to Rs. 1,674,344,783. Therefore a deterioration amounting to Rs. 155,789,477 or 9.31 percent of the financial result was observed. This decline was mainly due to a 98 percent increase in selling and distribution expenses and a Rs. 18,583 percent increase in financial expenses and a 98 percent decrease in other operating income.

2.2 Trend Analysis of Major Expenditure Subjects

Selling and distribution expenses of the previous year and the year under review Rs. 472,762,064 and Rs. 937,035,896 respectively and the expenditure had increased by 98 percent in the year under review compared to the previous year. Doubtful debt provisions of Rs. 800,926,792 of the year under review included in that was mainly affected to that. Compared to the previous year, Rs. 763,939,795 included in other operating income of Rs. 780,459,815 in foreign exchange profit of the previous year had been becoming a foreign exchange loss of Rs. 56,873,126 (Indicated in financial expenses of Rs. 57,488,612) was impacted to decrease the other operating income of the year under review by 98 percent and increase the financial expenses by Rs. 18,583.

2.3 Ratio Analysis

The gross profit ratio and net profit ratio was decreased by 2.65 percent and 6.98 percent respectively compared to the previous year and the debt turnover ratio increased by 4 times and the debt recovery time had reduced by 8 days.

3. Operational Review

3.1 Management Inefficiencies

	Audit observation	Comments of the Management	Recommendation
(a)	The provision of US$ 15,350,621 equal to Rs. 4,373,072,154 made in the year 2022 by the Treasury Operations Department (TOD) for the import of pharmaceutical ingredients with the objective of continuing the manufacturing activities of the pharmaceuticals by the State Pharmaceutical Manufacturing Corporation in view of the foreign exchange crisis in the year 2022 had not been utilized duly by the end of the year 2023.	The facts mentioned in the audit query has taken into consideration and the remaining of the relevant provision is utilized in the year 2024.	Provisions should be utilized to the maximum extent.
(b)	535 items with a cost of Rs. 370,965,843 included in non-current assets as at 31 December 2023 had not been physically surveyed in the year under review.	Action will be taken to correctly survey in the physical survey of fixed assets in the year 2024.	All assets should be physically verified at the end of the year.
(c)	A four-storied building located in Bulathsinhala area was purchased in the year 2017 for the purpose of establishing a public testing laboratory and a training	The fixed assets in the building have been handed over to the Ceylon Industrial Development Board for valuation and after	The building should be used for the intended functions immediately.

	school and that was not used for the said purposes as at the end of the year under review. 30 Auditorium chairs and 10 hall chairs obtained for the said purposes were not used from 04 years and these items were being destroyed.	receiving the valuation report on the 30 auditorium chairs and 10 hall chairs, action will be taken as per decisions of the valuation committee.	
(d)	The Corporation had not a policy on which asset should be recognized as a fixed asset in recognition of fixed assets.	After submitting a proposal to implement a fixed asset identification policy to the fixed asset committee of our corporation regarding the property related equipment, necessary action will be taken in future.	Action should be taken in accordance with the Sri Lanka Accounting Standards.

3.2 Operational Inefficiencies

	Audit observation	Comments of the Management	Recommendation
(a)	The manufacture of pharmaceuticals of Rosuvastatin Tablets IP 10mg and Aspirin GR Tablets BP 75m, out of the 10 new pharmaceuticals introduced in the year 2022, had not reached the expected production progress in the year under review and the blister pack, which had the market demand, had not been produced due to the insufficient machine capacity. Therefore, 572 kg of pharmaceutical ingredients which had been purchased at the cost of Rs.14,315,960 with the expectation of manufacturing the relevant medicine, had remained idle during the year and it had not been planned to produce these two batches of pharmaceuticals even in the year 2024.	Aspirin GR Tablet 75 mg – There are several technical issues in the pharmaceutical item and the pharmaceutical cannot be manufactured until the work is completed by the Formulation, Research and development division. It is planned to release the pharmaceutical as blister pack in the year 2024 and the activities will be carried out in the months of June and July.	Aspirin GR Tablet 75 mg- As it is mentioned that there are technical issues in the drug, raw materials should be purchased only for research until the technical issues and resolved and Rosuvastin Tablet IP 10mg should be arranged to fulfill the blister pack requirement.
(b)	Although new Pharmaceuticals have been introduced in the period from 2018 to 2023, there were insufficient contribution from new introductions due	Adequate orders are essential for the continued production of newly introduced Pharmaceuticals. Continuous	Although there is not demand from the medical supplies division for new

	to insufficient attention being paid to continuous production and promotion of newly introduced Pharmaceuticals (Excluding Omeprazole Gr Capsules IP 20mg, Levothyroxine (Thyroxine), Atorvastatin, Flucloxacillin, Cetirizine MP 10 mg, Diltiazem Hydrochloride Tablets USP 30mg)	production could not be carried out due to non-receiving of orders. Production capacity can be increased after receiving orders in the future.	products, action should be taken to get advantage of new products by taking orders through the open market.
(c)	Even though the production of Clopidogrel Tablets USP 75 mg (500 Pack Size) had been introduced in the Corporation as a new medicine in the year 2020, the production of this medicine in the Corporation had failed due to the weaknesses in its product formula and as a result, the dissolution of the medicine had not been conformed with the due requirement. Even though there had been an opportunity to achieve a profit of 10 percent if the product formula had been developed and this medicine had been produced in the Corporation and supplied for the requirements of the Medical Supplies Division, action had not been taken accordingly.	Research work is being done to correct the weaknesses in the product formula. It is helped that the development work will be completed as soon as possible and this Pharmaceutical will be produced.	As it is a Pharmaceutical that is in demand in the medical supplies division, the weaknesses in the product formula should be corrected as soon as possible and the Pharmaceutical should be manufactured.
(d)	The Corporation had to incur a loss of Rs. 15,265,626 in the year under review due to the sale of 10 types of Pharmaceuticals that were produced by the corporation and sold to the private market (Distributors) during the year 2023 at less than their production cost.	Products sold to the private market (Distributors) may in some cases be sold at a price of below total cost. If do not supply the market at a price equal to or lower than the current market price while selling in competition with the different types of Pharmaceuticals (brands) available in the market, that may not be able to sell our Pharmaceuticals and the Pharmaceuticals may expire and even be destroyed.	Product mix should be well managed.
(e)	A quantity of 600kg of pharmaceutical ingredients for Chloroquine Phosphate BP worth	Requests have been made to the Additional Secretary (Health Services) of the Ministry of	Arrangements for export should be made before the shelf life of

	Rs. 6,698,610 purchased in the year 2020 with the expectation of using it as a remedy for the Covid-19 pandemic situation and of which the shelf life had to be expired by 31 March 2025 had remained idle in the warehouse premises.	Health to coordinate this stock of manufactured Pharmaceuticals or raw materials if required by a local or foreign party and we have been informed that Fiji island is looking into the possibility of giving it as a grant. Currently, those coordination activities are being done.	the pharmaceutical ingredients expires.

3.3 Procurement Management

	Audit observation	Comments of the Management	Recommendation
(a)	In the procurement carried out to purchase 9000kg of Amoxicillin pharmaceutical ingredients under Order No. 20231556AA for the requirement of Amoxicillin pharmaceutical ingredients for the year 2023, the procurement committee had not considered the recommendation given by the technical evaluation committee, where the majority of the members were the officers in the State Pharmaceutical Manufacturing Corporation, and the recommendation of the Quality Assurance Division of the Corporation to procure 25kg initially, without importing the entire quantity of pharmaceutical ingredients at once, and to continuously check the structural stability of the products obtained and if the progress is successful, to import the remaining quantity. Due to the failure of the quality of the pharmaceutical ingredients purchased through the aforesaid procurement carried out expeditiously without checking the progress of pharmaceutical ingredients, the pharmaceutical	The products produced used by the pharmaceutical raw materials should be kept under the relevant environmental conditions of at least 06 months to check the stability of Amoxicillin finished product and two years life time of Amoxicillin finished product for real time stability testing and after that can check if the progress is successful. The recommendation given by the Technical Evaluation Committee for a procurement to be carried out after such a long period of time was not a practical solution to the situation of zero stock of Amoxicillin raw materials which was being created in future.	Action should be taken to obtain high quality pharmaceutical raw materials after proper inspections.

	ingredients remained idle in the premises of the Corporation for a period of 10 months until the date of audit in the year under review and the cost incurred for that purpose amounting to Rs. 104,844,337 had been uneconomical.		
(b)	Pharmaceutical ingredients had been supplied under 09 batches, contradictory to the 09 categories of pharmaceutical ingredients confirmed by the pre-sampling test as emphasized to be supplied by the contract award letter issued by the Corporation to the supplier under Order No. 20231556AA. Subsequent to receiving the pharmaceutical ingredients to the Corporation and entering them in the stock ledger, the Corporation had informed the supplier on 07 September 2023 that the batch numbers of the supplied Pharmaceutical ingredients had not been matched with the batch numbers that the Corporation had checked the pre-samples and confirmed the quality. The Corporation had to receive a stock of pharmaceutical ingredients that had not been conformed with the Conditions as an internal control system had not been maintained to confirm the compliance with the relevant Conditions by conducting a pre-inspection before receiving the goods. The Officer-in-Charge had to issue a certificate that the supplied goods had been in conformity with the specifications and other agreed terms as per 8.12.3 (a) of the Procurement Guidelines, and such a practice had not been maintained in the Corporation when receiving the imported pharmaceutical ingredients to the Corporation.	As the shipping documents related to the stock shipped by the supplier are issued to the receiving warehouse division of the corporation, the stock they receive is checked against the actual shipment documents with batch numbers that contradict the batch numbers confirmed by pre-sample inspection and pre-shipment document inspection. As the stock is compared with the inspection documents, it is not revealed that the store keeper has received goods contrary to the agreed terms.	A proper system should be developed to check whether the correct stock has been received to the warehouse.

3.4 Joint Venture Management

	Audit observation	Comments of the Management	Recommendation
(a)	A purchase order had been issued to an institution for the purchase of 300,000 injection units of Tranexamic Acid Injection 500mg/ 5ml Ampoule at Rs. 82.45 per unit at a total cost of Rs. 27,735,000 in respect of General Order No. 2023/SPM/N/R/P/000468 of the Medical Supplies Division. Although 300,000 units of injections were to be supplied to the State Pharmaceutical Manufacturing Corporation as per the given time frame, an extra time of 04 months had been taken to complete the said order. According to the price committee meeting on 06 April 2023, the price of all vaccine had been revised and as a result, the State Pharmaceutical Manufacturing Corporation had paid an additional sum of Rs. 7,980,713 to the supplier for 30,540 units of vaccines under lot No. YA230012 which the supplier had supplied late.	The joint venture company informed us in March 2023 that it is not possible to supply the quantity of 30,540 units as planned. Ewis has been requested to update the computer data system in order to obtain facilities as there is no method to identify such late supplies in the ERP system currently used for invoicing. It is hope that future supply fluctuations will make it easier to identify how such events will affect prices.	The sales division should regularly follow up on the delays in Pharmaceutical injections purchased through joint ventures. The corporation should not pay for price increases due to supplier delays.
(b)	Although the corporation has entered into agreements with 15 potential investors for the supply of Pharmaceuticals in the years 2018, 2019 and 2021 under the proposal to start joint ventures between the State Pharmaceutical Manufacturing Corporation and suitable private investors to expand the process of manufacturing Pharmaceuticals locally, the corporation had purchased Pharmaceuticals from only 05 investors by the end of the year under review.	5 Investors who have entered with joint venture agreements have supplied pharmaceuticals to the medical supplies division in the year 2023	Action should be taken to purchase Pharmaceuticals from the remaining investors.
(c)	820,000 Units of Midazolam Injection 5mg/ 1 ml ampoule which was Narcotic drug had been purchased at a total cost of Rs. 255,282,400 by Rs. 311.32	After taking a price committee meeting in future, the stated prices of the State Pharmaceuticals Corporation will be revised.	Price committee meetings should be held and price revision should be done.

	each unit and supplied to the Medical Supplies Division at Rs. 330 per unit. Although there has been a reduction in the price of vaccines in the domestic market since May 2023, the maximum retail price set by the National Regulatory Authority was Rs. 330 and vaccines had continued to be supplied to the Medical Supplies Division based on that.		
(d)	As recommended by the Official Committee appointed by the Cabinet of Ministers to implement the joint venture proposal, the corporation should provide quality control, management and technical support in manufacturing process of the engaged investor for joint ventures and the investor had to issue 10 percent of the shares of the business to the corporation for that. However, 08 investors had not issued shares to the corporation.	Joint ventures are still completing their factories and as a result, their production process has not started and due to that, share issuance has not been done. As soon as their factories are completed and the production process started, they will get 10% shares.	10% Shares should be taken from remaining investors.
(e)	Due to variation of unit price for the invoices related to joint venture Pharmaceuticals supplied to the Medical Supplies Division from the year 2018 to the year 2023 included in the trade debtor medical supply (Debtor DHS) accounts of the corporation and due to non-supply of Pharmaceuticals with the specified period, the amount of Rs. 884,136,286 charged from the corporation by the Medical Supplies Division as late charges (Delivery late charges) had not been recovered from the joint ventures.	The corporation will take action in future to offset the value of Rs. 884,136,286 for the Pharmaceuticals purchased from the joint ventures and supplied to the medical supplies division from the settlements to be made for the related joint ventures. Furthermore, the Minister of Health, the Secretary of the Ministry of Health has made a written request to the senior officers to provide relief in this regard.	Action should be taken to collect price variation fees and late fees from joint ventures as well.

3.5 Deficiencies in Contract Administration

	Audit observation	Comments of the Management	Recommendation
(a)	Due to the inadequacy of the cooling system currently used in the corporation, the need to install an efficient cooling system that fulfill the cooling demand was pointed out and although the proposal was approved by the Board of Directors of the corporation, it had not become operational till the end of the year under review. This had negatively affected the efficiency of the energy consumption of the corporation.	According to the Director Board decision on 20.04.2021 for the cabinet paper submitted to seeking approval to do by the same institute of M/s. Sri Lanka Energy Managers Association, which is done energy audit in the year 2019, this had resulted in delays in the process of obtaining the necessary procurement approvals for the appointment of a consultancy company for the project.	Action should be taken to achieve efficiency in energy consumption of the corporation as soon as possible.
(b)	The construction of a two-storied warehouse building on Kandawla road had been started in the year 2018 in order to store the finished Pharmaceuticals manufactured by the corporation, but its construction had been stopped on the way and Rs. 46,032361 had been spent for the construction of the building as at 31 December 2023. The project had resumed and it was in the bid evaluation stage until the audited date. Due to the delay of 06 years in the construction work of the two-storied warehouse building from the year 2018, the expected objectives were not fulfilled. As a result, an expenditure of Rs. 41,796,482 had been incurred in the year under review for obtaining storage facilities on rental basis to fulfill the storage facilities of the corporation.	After making the revisions indicated by the technical evaluation committee of ministry by the consultancy firm, the standing cabinet committee on procurement held on 02.02.2024 was submitted to SCAPC and accordingly, the Additional Secretary- Procurement informed to the procurement division of the corporation to approve the tenders and publish newspaper advertisements. It is mandatory to hire warehouses from outside for storage of finished drugs produced by our products and joint venture companies till the completion of construction and use.	The building should be constructed quickly and work should be done to achieve the intended purpose.
(c)	Although it had been planned to establish 05 manufacturing factories in the Lotus Pharma new manufacturing plant to cover the fundamental need for pharmaceuticals in the country, US$ 13.1 million equal to Rs. 4,349.2 million had been estimated for the establishment of a factory for the production of oral solids (tablets and	The land is a very small portion taken from a total of 800 acres of land. It was obtained by the Urban Development Authority through a cabinet paper. It was acquired at a much lower value than the appraised value of the government. It was essential to save space for future plans in the project. A	As the project is an essential element for the institution as well as for the country, it should be expedited.

	capsules) as the first phase of it after 03 years. Even though it had been stated according to the Board Paper BP/44/22 dated 20 October 2022 and the decision of the Board dated 07 October that the area of 20 acres had been sufficient to construct the 03 factories expected under this project, reasons for purchasing 65 acres by incurring a sum of Rs. 322.4 million had not been obvious. Although the Cabinet Appointed Procurement Committee met on 02 February 2024 had informed that a Comprehensive Feasibility Study should be carried out by covering all the fields related to the project within a period of 03 months from that date, the time allocated for that had expired even by 06 May 2024, which had been the date of audit. Although it had been expected to finalize this project in 03 years according to the five-year plan from 2022 to 2026, 02 years and 05 months have passed by the end of the year under review since the expected period of completion of the project and the physical progress of it had been zero.	procurement committee has been appointed for the feasibility study and currently the preparation of documents related to the invitation of bids is in the final stages.	

3.6 Human Resource Management

	Audit observation	Comments of the Management	Recommendation
(a)	The approved number of employees of the Corporation as at 31 December 2023 were 430 and the actual number of employees were 328 and the number of vacancies were 106. However, the number of vacancies had been 106 as at 31 March 2024 comprised of 25 posts in executive grades including 01 post of Head of Department for quality control division, which is a very important division for the production process similarly to the formulation, research and development division and 51 posts of non-executive grade and 30 posts of minor employees.	According to the circular issued under National Budget Circular No. 3/2022 on the control of public expenditure, recruitments were restricted and all recruitments had to be approved by the Board of Directors and the Department of Public Enterprises. Also, the process of recruitment of new approved posts in in progress to recruit the approved posts.	Recruitment of employees should be done only for essential posts.

4. Accountability and Good Governance

4.1 Annual Action Plan

	Audit observation	Comments of the Management	Recommendation
	The following observations are made regarding the progress of the activities included in the action plan prepared for the year 2023.		
(a)	Regarding the five –year corporate plan prepared for the 5 years from 2022 to 2026 and only the Punch and Dies storage facility which was an activity for the year 2023 under the target of increasing production capacity out of the 13 activities equal to Rs. 1757 million of estimated value included in the 2023 action plan had been completed.	Most of the activities in the action plan of 2023 have made some progress and the remaining can be completed in the year 2024.	Necessary action should be taken to achieve the expected goals.
(b)	Although Rs. 500 million have been allocated for the selection of a qualified contractor for the Lotus Pharma project in relation to the activity for the year 2023 under the corporate plan prepared for the 05 years from 2022 to 2026, the activity had been delayed pending the decision of the cabinet appointed standing procurement committee (SCAPC). According to the corporate plan, the project was expected to be completed in 03 years, but 02 years and 05 months had elapsed at the year under review since the expected completion of the project. Not enough progress was made.	9 Parties had applied for the project out of 2 parties was selected but as there was a major discrepancy between them, they were informed to re-advertise and call for bids. It was also informed to do feasibility studies before that.	Since the project is an essential part of the country, action should be taken to get the benefits in due time.
(c)	Other than the actual sales revenue as a whole, the other expected targets in the corporate plan had failed to be fulfilled in the year 2023.	Matters mentioned by the query were taken into consideration.	Necessary action should be taken to achieve the expected goals.