State Pharmaceuticals Corporation - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Pharmaceuticals Corporation for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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, 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 2024, 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 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 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 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 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 Scope of the Audit

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 skepticism 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 had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws and rules.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance to the Sri Lanka Accounting Standards

Non-compliance with reference to the relevant standard	Comments of the Management	Recommendation
Although assets and liabilities should be converted at the closing rate at the date of the statement of financial position in accordance with paragraph 39 of Sri Lanka Accounting Standards 21, the Rs. 4.90 million deposited in a foreign company for ship fire insurance and the Rs. 9.22 million receivable from suppliers included in the miscellaneous deposit account had not been converted into local currency using the exchange rate prevailing on that date.	The balance of the miscellaneous deposit account is an old write-off value and those values were not converted back to local currency as the value of receivables from suppliers include a number of items to be received in the month of January 2025.	Action should be taken in accordance with Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Due to that the settled payment balance of Rs. 4.25 million under current liabilities and the balance of Rs. 719.74 million paid directly to the supplier by	All payable bank bills mentioned under current liabilities are balances that were payable on 31	This error should be corrected before the submission of accounts for the year 2025.

	the Asian Development Bank were include in the payable bank bill account in preparing the financial statements, the balance of that account had been overstated by Rs. 723.99 million and due to the over accounting of Rs. 719.74 million receivable from the Medical Supplies Division, the balance of the debtor account receivable from the Medical Supplies Division for the year under review was also overstated by that amount.	December 2024.	
(b)	Despite the release of a deposit of Rs. 8.9 million, which was to be repaid in lieu of the bank guarantee, a further Rs. 8.61 million was still disclosed in the statement of financial position. Accordingly, the balance of the deposit account to be repaid in lieu of a bank guarantee had been overstated by Rs. 8.61 million.	This error will be corrected in the year 2025.	-Do-
(c)	Although the balance of the payable bank bills account, which was stated under current liabilities, was recorded as Rs. 10,545.36 million, due to the non-inclusion of Rs. 22.55 million, which should have been identified in relation to the balance, the balance of the payable bank bills account for the year under review was understated by that amount.	It is not accepted that the bank account balance has been understated.	-Do-

1.5.3 Unreconciled Control Accounts or Reports

Audit by Observation	Amount according to the financial statements Rs. million	Amount according to the corresponding reports Rs. Million	Difference Rs. million	Comments of the Management	Recommendation
Out of the medical supplies purchased for sale by pharmacies between the year	497.26	477.03	20.23	As the investigation for identify the reasons to this difference,	Necessary adjustments to financial statements should be made immediately.

	from 1996 to 2024, the cost of medical supplies that were defective, expired and damaged as at 31 December 2024 was Rs. 497.26 million according to the financial statements, but there was a difference of Rs. 20.23 million due to it was Rs. 477.032 million according to the physical stock survey report on that date. Although that difference had existed from many years, action had not been taken to resolve it.		which is identified in the year 2013, has now been completed, the necessary adjustments will be made and taken action to write off through the write off committee in future.

1.6 Receivable and Payable Accounts

1.6.1 Receivable Money

	Audit Observation	Comments of the Management	Recommendation
(a)	Out of the Rs. 13.44 million mentioned as receivable agent commission under current assets in the balance sheet as at 31 December 2024, Rs. 13.37 million was a balance older than 10 years belonging to the years from 2006 to 2011, but sufficient actions had not been taken to recover the balance.	After the clearing and delivering of medicines to the drugs warehouse of the government and confirming their quality, the agent commission is released when the relevant payments are made and those activities will take a considerable time.	Action should be taken to recover the receivable amount from the relevant parties or write off formally.
(b)	The balance of container deposits recorded under current assets was	The remaining value to be further recovered should be	-Do-

	Rs.11.12 million and the Corporation had failed to recover the balance of Rs. 7.08 million from that between 2 and 17 years. Also, deposits had not been recovered from the balances of Rs. 5.78 million relating to the period from 2007 to 2015.	fully recovered from the Ceylon Shipping Corporation and that receivings are very slowly, Since the value of the container deposits belonging to the period of 2007-2015 cannot be recovered, they have been referred to the standing write-off committee for write-off the accounts on the recommendation of the Committee on Public Accounts.	
(c)	Advances paid to suppliers amounted to Rs. 345.51 million and outstanding advances for a period of between 3 and 10 years amounted to Rs. 44.72 million, including Rs. 36.4 million given to a private company that supplied refrigerated containers for Covid vaccines	A letter has been sent to the Secretary of the Health on 04 March 2024 to resolve the issue regarding the payment of the two containers provided to a private institution and further action will be taken to inform again in this regard.	Advance control should be streamlined.
(d)	Out of the sundry debtors with a balance of Rs. 12.16 million, Rs. 5.68 million or 46.7 percent were old balances from the period 1997 to 2016, but the sufficient actions had not been taken to solve it.	Agree with the observation and it is stated that since the write-off committee has been appointed, this value will be write-off within this year.	Action should be taken to recover or formally write-off old loan balances and debtor control systems should be formalized.
(e)	Although that the loans should be collected from trade debtors within 30 to 45 days from the date of sale according to the credit policy of the Corporation, out of the outstanding balance of Rs. 1,069.15 million as at 31 December 2024, Rs. 33.70 million receivables from private, government and semi-government institutions had not been recovered from more than 5 years and Rs. 31.36 million had not been recovered from the period of 1 and 5 years.	A loan recovery committee has also been appointed in the Corporation. Actions have been taken to collect by sending letters of demand to 53 private sector debtors.	The recovery of loans should be done with efficient within the period of time and in accordance with agreements, as per the policy of the Corporation.

1.6.2 Payable Money

	Audit Observation	Comments of the Management	Recommendation
(a)	The payable agent commission mentioned under current liabilities in the balance sheet was Rs. 63.08 million. Out of that, Rs. 11.66 million was payable agent commission older than 02 years ago.	Payable agent commission more than 02 years old will be recorded as income after verifying whether they are payable or not.	Action should be taken to investigate and settle or recover unpaid amounts to suppliers over a long period of time.
(b)	Out of the balance in the payable bank bills account, Rs. 1,215.15 million was outstanding 100 percent letters of credit and retention money balances that were more than 2 years old.	Currently, actions are being made to settle these items and these items will be settled or credited to income in the year 2025.	-Do-

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)	Section 10(2)(a) and (b) of the Finance Act No. 38 of 1971	Rs. 250.77 million had been invested in treasury bills without obtaining the approval of the Minister of Finance.	These funds are not funds created using the operating income of the Corporation and due to that, it has been invested under the approval of the Board of Directors.	Action should be taken as per the Finance Act.
(b)	Public Enterprises Circular No. 95 dated 14 June 1994 and National Budget Circular No. 01/2024 dated 10 January 2024	Rs. 1.72 million and Rs. 4.07 million respectively were spent without treasury approval to provide umbrellas and gold coins to employees for the 53rd anniversary of the Corporation.	According to the Board of Director decision dated 31 July 2024, approval has been given to spend an amount of Rs. 6.94 million for the anniversaries of the years 2023 and 2024.	Action should be taken in accordance with the provisions of the circular.
(c)	Paragraph 3.2 of Public Enterprises Circular No. PED 03/2024 dated 23 December 2024	Although it is stated that bonuses cannot be paid to employees of state corporations, statutory boards and state-owned companies that pay salaries and other allowances under collective agreements or	The annual performance incentive payments were made in accordance with the provisions of section 6(ii) d of our corporation's collective agreement approved by the Secretary of the treasury.	Action should be taken in accordance with the provisions of the circular.

other such memorandums of understanding, apart from that, Rs. 17.19 million had been paid as bonuses to 904 employees at a rate of Rs. 20,000 per employee.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 1,623.41 million and the corresponding profit in the preceding year amounted to Rs. 773.53 million. Therefore an improvement amounting to Rs. 849.88 million of the financial result was observed. This improvement was mainly due to a 46 percent decrease in bank overdraft interest expense during the year under review compared to the previous year.

2.2 Analysis of the Trend of Main Income and Revenue Subjects

The value of receivables from defaulting suppliers recovered in the previous and the year under review were Rs. 994.12 million and Rs. 2,434.35 million respectively and that income had increased by 144 percent in the year under review compared to the previous year. Also, as the interest expense on bank overdrafts in the previous year and the year under review was Rs. 3,274.89 million and Rs. 1,739.79 million respectively, that expense is decrease by 46 percent.

2.3 Ratio Analysis

The gross profit ratio increased by 1.63 percent and the net profit ratio increased by 1.58 percent in the year under review compared to the previous year and the debt turnover ratio had decreased by 0.19 times.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Although bids were invited for an Enterprise Resource Planning System to make the operations and administrative activities of the Corporation more efficient, it was decided to cancel the bid and invite bids again due to lack of funds. However, bids were called for periodically for 16 years from the year 2007 to 2022, but the objective had not been achieved by the Corporation.	It was proposed to establish ERP system in late 2024 and approval has been given for it to be carried out under the financial assistance of the Asian Development Bank.	Planned projects should be implemented as that achieve the desired objectives.

(b)	There was not a specific methodology in deploying officers to survey the stocks and fixed assets of the Corporation. Accordingly, allowances of Rs. 3.46 million were paid to pharmacy employees, employees of the Ratmalana main warehouse and employees of the manufacturing plant who were not appointed for the survey for 778 man-days in addition to the officers appointed for Board of Survey.	According to the Board of Director decision dated 07 August 2013, approval has been given to revise the payments to the member of the Board of Survey, staff and observers engaged in stock verification and action will be taken to minimize the deficiencies in future.	When appointing officers for the Board of Survey and incurring other expenses, that should be done as minimum cost and on a specific basis.
(c)	Although bids were invited from the State Pharmaceuticals Manufacturing Corporation for the procurement of pharmaceuticals manufactured by that Corporation in the years of 2023 and 2024, it was observed that the many non-responded instances made by the Pharmaceuticals Manufacturing Corporation due to reasons such as failure to adapt for the price changes of the medicines, failure to accept medicines within the specified supply periods, requested to extend the quality certificates and life time of certain medicines by storing them in stock when nearly to expire and requested a new stock to replace expired medicines. Accordingly, the relevant medicines had to be purchased from other parties at prices higher than the prices of State Pharmaceuticals Corporation. Due to the aforementioned reason, an additional cost of Rs. 159.75 million had to be incurred for 03 orders in the year 2023 only.	Since the Pharmaceuticals Manufacturing Corporation has not submitted bids for the tenders of the State Pharmaceuticals Corporation in the years of 2023 and 2024, the Corporation has taken action to obtain stocks from the bidders who submitted bids and currently, negotiations are going on between the two Corporations to obtain the maximum discount and the items are being purchased through the central purchasing unit of the Corporation.	A Memorandum of Understanding should be made between the two Corporations and action should be taken to purchase medicines at the lowest price.
(d)	Rs. 34.39 million, Rs. 31.47 million and Rs. 266,767 respectively related to 04,06 and 02 ship guarantees opened in the Bank of Ceylon, Commercial Bank and People's Bank during the period from the year 2012 to 2021 had not been released by the end of the year under review.	The supplier has not sent the original copies of the bills of lading relating to four guarantees to the bank and arrangements are being made with the shipping company and the relevant bank to cancel 07 guarantees.	Action should be taken to clear the old ship guarantees that have been in existence from a long period.

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	When 13 medicines were purchased for sale in the pharmacies of the State Pharmaceuticals Corporation during the same period of the year under review, an additional cost of Rs. 10.20 million had to be incurred due to the purchase price of the CPU division and pharmacy are being taken high value from 12 percent to 425 percent higher than the purchase price of the SPC sector.	Agree with the observation. Prices are decreasing due to large bulk imports of medicines from the SPC division. The medicines are procured from the local market by the CPU division and a small quantity of medicines will have to be procured from the CPU division to prevent shortages in the pharmacy network. If not, the sales of the Corporation may collapse and consumers may leave from the pharmacy network.	The stock requirements for pharmacies should be forecasted and purchases should be made in a planned as in accordance with procurement guidelines, rather than purchasing from pharmacies individually.
(b)	When the procurement of 15 items of medicine using Rs. 100 million provided by the Foreign Employment Bureau to purchase necessary medicines and equipment for cancer patients, The emergency procurement committee of the Ministry of Health had given an insufficient time of 2 days to submit bids and a period of one month had elapsed from the date of the procurement decision to issue the indenture. The supplier had supplied the medicines with a delay of 21 to 182 days and a further Rs. 7.72 million should have been recovered for the delay. Despite that Rs. 100 million had been given to the Corporation in relation to the procurement of these items, debit notes of Rs. 138.21 million had once again been issued to the Medical Supplies Division.	That the Corporation has received Rs. 100 million, but in addition to that amount, these debit notes have been issued to receive the money to be received for importing items and distributing them to the Medical Supplies Division and that the settlement documents relating to the total amount of Rs. 38.21 million receivable from these debit notes should be provided to the Corporation by the Medical Supplies Division.	Delay charge should be charged from the supplier. When purchasing medicines using funds obtained from the Medical Supplies Division, both parties should be reconcile the debit notes and settle the transaction to prevent funds from being obtained again through issuing debit notes to the Medical Supplies Division.
(c)	When sending medicines and surgical items to the Medical Supplies Division, which are procured by the Corporation	Agree with the audit observation and Rs. 4.72 million still need to be settled	When handing over medicines to the Medical Supplies

	and supplied to the Medical Supplies Division, the Corporation had incurred Rs. 152.84 million from January to July of the year under review as an additional storage cost for the stocks due to the return of stocks due to insufficient storage capacity and Rs. 7.91 million as the storing cost in external warehouses due to refused to accept the stocks by the Medical Supplies Division due to deficiencies in the procurement documents or non-receiving of the documents.	from the additional storage cost.	Division, arrangements should be made to order and deliver in bulk as that minimize the storage cost after discussion between the two parties.
(d)	The National Health Development Fund had provided US$ 02 million donated by Sri Lanka Cricket Institute to the State Pharmaceuticals Corporation on 19 September 2022 for the procurement of 788,590 Meropenem Injection 1g and 500mg vials. After purchasing the medicines, the Corporation had issued debit notes of Rs. 817.11 million to the Medical Supplies Division and had recovered the invoice value of Rs. 742.83 million in addition to the 10 percent service charges. Accordingly, it was observed that the Corporation had received money twice for the above supplies. US$ 500,000 granted to the Corporation by the Sri Lankan Cricket Board through the Health Development Fund in the year 2023 had been used to purchase 18 items of medicines and after purchasing those medicines, an additional amount of Rs. 111.37 million was obtained through the issuance of debit notes to the Medical Supplies Division.	It is essential to complete the reconciliation of receiving (GOSL funds and other funds) and debit notes for the year 2023 and prior years. The Medical Supplies Division has been informed on several occasions and their active support must be constantly received for this and the details of deductions for defective items have been provided to the Corporation by the Medical Supplies Division, the relevant deductions have been properly accounted and the amount recovered from the supplier has been properly accounted.	When purchasing medicines using various funds, both parties should reconcile the debit notes and settle the transaction to prevent the Medical Supplies Division from issuing debit notes to obtain funds again.
(e)	A delay charges of Rs. 1.11 million was paid due to the delay in releasing the relevant stock from the port for a purchase order of 15,000 kilograms of Sodium Chloride with a cost of US$ 11,100 or Rs. 4.01 million.	Agree with the observation and the clearance process has been delayed due to that the ship carrying the cargo had to obtain approval from the food control division of the Ministry of Health after it arrived at the port.	Action should be taken to recover the delay charges incurred by the government from the responsible parties.

(f)	The value of debit notes issued until 31 December 2024 to recover the incurred cost from suppliers for supplying quality failure and damaged medicines to the Medical Supplies Division, administrative charges and the disposal expenses of that stocks was Rs. 5,573.64 million, but Rs. 2,996.65 million out of that amount had not been recovered until 31 March 2025. Among those debit notes, as there are recoverable amount of Rs. 1,651.98 million from blacklisted suppliers and Rs. 279.45 million from suppliers whom final reminder letters have been sent until 31 March 2025, the recovery of that money remained uncertain.	Agree with the observation.	Immediate and efficient actions should be taken to recover the unrecovered money from suppliers.
(g)	About 11 pharmacies were in losses in the year 2022 and that number had increased to 19 pharmacies in the year 2023 and it had increased to 34 pharmacies by the year under review. There were 09 pharmacies were reported as loss in the last three years and the number of pharmacies in loss in the two most recent years of 2023 and 2024 was 18. Accordingly, the total loss of the pharmacies in the year under review was Rs. 84.40 million.	It is intended in this year to reduce unnecessary employees and pharmacies in loss are convert to profitability through promotional activities in discussions with the sales division and relevant pharmacy managers.	Pharmacies in loss should be constantly monitored and the causes of losses should be investigated and remedial actions should be taken to reset them to a profitable state.
(h)	Out of the medicines supplied to the pharmacy network of the Corporation, 185 medicines items, comprising 53, 46 and 86 medicines items were in shortage for a period from 1 day to 946 days as at 31 August 2024, from the beginning of the years of 2022, 2023 and 2024 respectively. Also, out of the available medicines in the Ratmalana warehouse premises, 151 medicines have been identified as fast-moving medicine items and out of those items, 47 medicine items were in short supply as at 31 August 2024.	Orders for the year 2023 have not been placed as items ordered under the Indian Credit Scheme are still being recovered and due to the rapid expansion of the pharmacy network from the year 2022 to 2024, the stocks ordered at that time were insufficient.	Stock orders should be placed considering the reorder level before a shortage of medicines occurs.

(i)	A stock of Rs. 2.00 million belonging to the years 2007,2008,2009 and 2012 and a balance of customs duties to be recovered from the medical supplies division amounting to Rs. 12.60 million belonging to the five years from the year 2007 to 2012 had been mentioned under stocks in transit in the statement of financial position from long time and action had not been taken to settle these balances and recover them from the Medical Supplies Division or the relevant responsible parties until 31 December 2024.	The old values to be submitted to the write-off committee.	Action should be taken to recover the amounts to be charged from the relevant parties or to write-off them in a formal manner.

3.3 Procurement Management

	Audit Observation	Comments of the Management	Recommendation
(a)	Although the third lowest bidder was selected by the departmental procurement committee dated 05 July 2023 to purchase 10,795 eye lenses at Rs. 9,320 per unit for Rs. 100.61 million, the bidder had not submitted the bid security at the time of bid opening and the cheque for Rs. 3.02 million submitted later had also become dishonored. As per the recommendations of the report of the three-member committee appointed on a complaint by the unsuccessful bidders, the departmental procurement committee dated 21 September 2023 had re-awarded this bid to the second lowest bidder at Rs. 9,000 per unit. That supplier had also provided samples with a delay of 1 month and 16 days and had opened letters of credit and supplied stocks with a delay of 05 months and 10 days.	Agreed with the observation and the supplies could not be procured on the scheduled date because the Medical Supplies Division informed that further technical clarifications were required and the clarification process have been taken about 60 days.	The departmental procurement committee should conduct a formal investigation and take appropriate action regarding the lack of due diligence in its evaluations.
(b)	A purchase order for 9,199 units of 2 types of eye lenses for Rs. 85.73 million was awarded by the departmental procurement committee	As the Medical Supplies Division has taken time to obtain technical clarifications on the stocks, the delivery of	-Do-

	dated 15 June 2023 to the third lowest bidder whose bid bond cheque was dishonored and on the recommendation of the three-member committee appointed to examine these purchases, it was decided on 02 November 2023 to re-award the order for Rs. 82.79 million to the second lowest bidder. Although the stocks were to be supplied within three months after opening the letters of credit, the stocks had not been supplied until 10 June 2024.	08 orders that were to be supplied by that supplier itself were delayed.	
(c)	During the bid evaluation of the procurement called on 20 February 2020 for a purchase order for 54,000 lenses of 07 types of eye lenses, the procurement that had been done technical evaluation was selected for award and due to that two bid formats were evaluated based on different conditions by the committee without due diligence, the lowest and second bidders were rejected and the third bidder, who submitted a bid of Rs. 598.78 million, which was Rs. 293.96 million more than the lowest bid, was selected and the cabinet appointed standing procurement committee of the cabinet of ministers had decided to call for bids again on 19 July 2021. Accordingly, although procurement for 5 items was awarded for Rs. 692.95 million, the relevant supplier had not responded and the corporation had not taken action to cash the supplier's bid security worth Rs. 6.60 million before it expired. Furthermore, this procurement had not been completed until 10 June 2024.	Since the supplier's item specifications has not been match the order specifications of the Medical Supplies Division, the file had been sent for technical verification again as approved by the Medical Supplies Division and the bid security had expired during that evaluation	The Technical Evaluation Committee should conduct a formal investigation and take appropriate action regarding the lack of due diligence in its assessments and the failure to collect the bid security before the expiry of the bid security.
(d)	Although the third lowest bidder selected on 20 February 2020 to supply 20,540 units of 08 types of eye lenses for Rs. 243.85 million agreed to supply the stock within three months from the date of issuance of the letters of credit	Due to the shortage of this item and the supplier having agreed to provide the goods, the performance bond was extended and obtained at that time. In the time of taken	The officers responsible for the loss should be identified and disciplinary action should be taken against them.

	on 04 March 2022, the stocks had not been supplied accordingly and action had not been taken to cash the performance bond worth Rs. 24.38 million as per section 10 of the agreement signed with the supplier.	maternity leaves by the officer who is handle this file, these files were handled by an employee temporarily attached to the Corporation. This performance bond has expired during that period.	
(e)	Although it was stated that bids were issued to three selected bidders in the procurement for the purchase of 10,000 units of empty sanitizer packaging bottles in sizes of 50ml, 100ml and 500ml as the first order and 15,000 units as the second order, all three bid documents were sent to the same address under different names with indicating that three bids were invited. Further, although this procurement was determined to be an urgent need, the selected supplier had supplied the relevant stocks for both orders after 77 days for the first order and 17 days for the second order from the date of the orders were issued on 27 October 2021 and the 500ml bottles had not been supplied. However, delay charges were not charged for the delay in delivery and due to the delay in the procurement process, the supplier's delay with the decrease in sanitizer production due to the Covid-19 pandemic, the empty bottles, which were costing to Rs. 1.22 million, had been remained.	It was stated that the necessary approvals had been obtained and bid invitations had been issued to fulfill the requirement from the suppliers of the relevant materials that were in the market in that time and action have been taken to remove the section on charging delay charges and due to the Covid situation in the country and the specific time frame has not been specified for the supply of stocks.	Procurement management should be carried out in accordance with the Government Procurement Guidelines and its amendment as updated from time to time. Action should be taken to recover incurred any damages or losses from the responsible officers due to failure to do like that.
(f)	The single bidder who submitted the tender for the purchase of 25,000 unit of 5 liter cans for packaging sanitizer was awarded the order on 06 April 2022 for Rs. 4.72 million and although the packaging cans were stated to be very urgent, the supplier had taken 180 days to deliver the entire order. However, delay charges were not charged for the delay in delivery as per the bidding documents and due to the delay in the procurement process, the	Although there was the problematic situation to the manufacturers due to restrictions on the import of manufacturing raw materials imposed due to the Covid-19 situation in the country and the foreign exchange crisis that has existed in the country since the year early 2022, the supplier has taken action to deliver all goods to	-Do-

	supplier's delay and the decrease in sanitizer production due to the end of the Covid-19 pandemic, 20,510 empty packaging units worth Rs. 3.59 million had been remained.	the required standard.	
(g)	As there were not stocks in the Medical Supplies Division until 09 June 2023, bids were invited under the urgent procurement procedure to purchase 2,500,000 vials of Cefuroxime Injection 750 mg. Accordingly, the order for 1,250,000 vaccine vials at Rs. 589 per unit was awarded to two suppliers who submitted the 5th lowest price for the value of Rs. 736.25 million, but the Kandy National Hospital had complained about batch number VLI 065 provided by one of the suppliers.	The National Medicines Regulatory Authority has not informed the State Pharmaceuticals Corporation about any suspension or rejection of stocks due to a failure in the quality of the VL 1065 batch.	Quality inspections that must be carried out before purchasing medicines should be formalized and special consideration should be given to this when selecting the supplier.
(h)	Although the order was awarded to the supplier who submitted the second lowest price in relation to the procurement of 900,000 vials of Cefuroxime Injection 750 mg, which was costing US$ 261,000, the supplier had rejected the drug order by a letter dated 07 August 2023 with indicating the increase in raw material prices. Accordingly, on the successful bidder had failed to accept the bid and enter into an agreement, the bid security worth Rs. 1.03 million should have been confiscated, but this had not been done.	Agree with the observation and the relevant officers are currently being inquired for their explanations.	Action should be taken to recover the any incurred damages or losses from the responsible officers due to failure to manage procurement in accordance with the Government Procurement Guidelines.
(i)	Out of the invitations to bid sent to 34 selected suppliers for the procurement of 3,000 packets of 25 kilograms of Glucose BP (Monohydrate) at a cost of US$ 84,750, fax messages sent directly to 26 foreign companies had not been received and it had not been possible to invite bids from the supplier of the previous year. Accordingly, the prices of the selected bidder without proper	Agree with the observation, but due to the spread of the Covid pandemic worldwide in the year 2022, many supplier institutions were not actively operating, there were practical and technical problems in communicating relevant fax messages.	-Do-

	competition had increased by 42 percent compared to the bid prices of the previous supplier.		
(j)	Although data from 11 suppliers was obtained regarding the procurement of 22,000 kilograms of Sodium Citrate used for the production of Jeevani, bid invitations were sent to only two bidders. Although this raw material can be imported under an Open General Licence, the decision to issue invitations to bids to selected suppliers based on the absence of registered suppliers had resulted in the loss of the ability to obtain competitive prices through open marketing bidding.	Agree with the observation and as the relevant procurement had been occurred in the peak time of the global Covid pandemic, bids were invited from previous suppliers.	-Do-
(k)	Although the order was awarded to the supplier who submitted the lowest price in relation to the procurement of 500 kilograms of Saccharin sodium crystalline at a cost of Rs. 925,000, 271 days had passed since the raw materials were received without taking action to obtain the relevant certificate of analysis at the time of supply. Accordingly, it was not possible to finalize whether 350 kg of Saccharin sodium complied with the relevant specifications until it was used.	Agree with the observation and it is stated that after the relevant quality analysis report was confirmed by the Technical Division of the Corporation, action has been taken to settle the payments of the relevant supplier.	A formal independent investigation should be conducted and taken further actions.
(l)	Due to a delay in reaching agreement on certain matters include in the contract for the purchase of 6,500 kilograms of Anhydrous Citric Acid, although the General Manager had given cover approval to purchase 6,500 kilograms of Anhydrous Citric Acid for US$ 6871.80 based on a proposal from the local representative of the supplier, the approval of the Procurement Committee had not been obtained for that. A performance security had not been obtained for this procurement in accordance with section 5.4.8 of the Government Procurement Guidelines.	This approval has been omitted from the procurement committee. Performance security has not been obtained and delay charges have not been collected from the supplier during the disaster period.	A formal independent investigation should be conducted and taken further actions.

	Although the issued purchase order stated that the supplies were required urgently, the supply of stocks were delayed by 52 days from issued date of the purchase order. Accordingly, a delay charges of US$ 687.1 should have been collected from the supplier in accordance with section 10.1 of the agreement, but this had not been done.		
(m)	Although the bidder who submitted the second lowest price was selected for the procurement of 80,000 kilograms of Anhydrous Glucose, that bidder had not submitted samples and had requested an increase in price. Accordingly, although the procurement committee decided to cancel this bid, due to the failure of bidder to accept his bid and enter into the agreement, action had not been taken to confiscate the bid security of Rs. 245,000 as per 5.3.11 of the Government Procurement Guidelines.	It has been impossible to confiscate the bid security due to the bidders who submitted bids changing their prices on several instances and the time taken for price revisions.	Procurement management should be carried out in accordance with the Government Procurement Guidelines and amendments up dated from time to time. Action should be taken to recover incurred damages or losses from the responsible officers due to failure to do like that.
(n)	Although approval had been given to purchase 7,200 kilograms of Sodium Chloride required for the Ratmalana manufacturing plant under the direct purchase method from a previous supplier for US$ 7603.20 or Rs. 2,461,222 with indicating delays in purchasing it under the Indian credit scheme, the re-ordering method or direct purchase method as per sections 3.5 and 3.6 of the Government Guidelines had not been followed in relation to this order. Even though they purchased directly from the supplier, they had to pay a price of US$ 0.646 per kilogram or 157 percent more per kilogram than the agreed price in previously. Also, US$ 0.316 was more paid per kilogram for this order that the purchase price under the Indian credit scheme. Accordingly, the government had to incur a loss of US$ 2275.2 or	The procurement has been carried out as this shortage of raw materials affect the continuity of the Jeevani production division.	Procurement management should be carried out in accordance with the Government Procurement Guidelines and its amendment as updated from time to time. Action should be taken to recover incurred any damages or losses from the responsible officers due to failure to do like that.

	Rs. 736,502 under direct purchase. However, even when this stock, which was purchased through the direct purchase method at a relatively higher price, was delivered to the warehouse, the stock imported through the Indian credit scheme had already been received to the warehouse.		
(o)	The bid invitation information, bid documents and bid opening documents for the purchase of 90,000 packets of Clobetasol Propionate Ointment USP 0.05% 15g at a cost of US$ 16,200 were not available in the file. Although there was a situation of the zero stock since December 2021, it was taken 101 days from the last date of the bid to send the acceptance letter to the selected supplier. According to investigations conducted about the complaints submitted by pharmacy customers regarding the supplied stock, even though it was stated as Ointment in the product label, the laboratory of the Corporation had confirmed that this was consisted with cream format. It had been decided to release the stock back to pharmacies using the quality reports provided by the manufacturer and after doing the relevant payments to the supplier, a debit note of Rs. 7.89 million was sent to the supplier again with causing quality deficiencies reported by the pharmacies, but the supplier had refused to pay it. However, it was observed that if the recovery was not made from the supplier, the Corporation will have to bear the cost of Rs. 3.25 million in relation to the remaining 46,407 units of defective stock and the cost of destroying the stock.	Agree with the observations and the Corporation has not taken action to implement the decision taken by the Quality Deficiency Committee mentioned here.	-Do-
(p)	The order for the purchase of 120,000 packaging units of Famotidine tablets USP 40 mg was awarded to the	The delay in receiving the stock of medicines was due to the delay in obtaining the	-Do-

	supplier who had submitted the lowest price for US$ 58,800, subject to obtaining a certificate of exemption from registration of the National Medicines Regulatory Authority, it had taken a year from the date of issuance of the indenture to deliver the goods. This entire stock, which was delivered in delay by the supplier, was sold in a short period of 06 months. Due to the failure to correctly identify the packaging unit quantity of this medicine and order stock within the specified time, the stock was zero from December 2021 to October 2023 and from May 2024 to 15 November 2024 and therefore sales in those months were also zero.	registration certificate from the Medicines Regulatory Authority.	
(q)	The lowest bidder was awarded the order for US$ 44,640 in a tender for the purchase of 48,000 units of Gabapentin Capsules USP 100 mg (10 x 10) packets. The supplier's registration with the National Medicines Regulatory Authority had expired at the time of order was placed. Furthermore, this supplier had not supplied the 16,800 packaging units awarded under a previous order. Arrangements had been made to re-export 29,962 previously supplied packaging units as their shelf life was less than 50 percent. Accordingly, due to the order being placed with an unreliable supplier who did not have a valid registration certificate, the medicine could not be procured even though it was taken about 03 years and 06 months for this procurement. However, in the situation like that, the next order of 60,000 packaging units was awarded to this same supplier at US$ 57,600 and although supposed to supply the entire stock up to September 2023, the stock had not been supplied until 03 December 2024. Accordingly, this	Although a grant was given for 60,000 packaging units in the year 2023, as the supplier has not provided the registration certificate of the drug, it has not been possible to clear the drug stock an due to that, it has been informed that the procurement process has been temporarily suspended until this issue is solved and that the procurement of supplies scheduled to be obtained from this supplier has been suspended in accordance with the Board of Directors' decision on 18 March 2024.	-Do-

	medicine had been purchased from the same supplier from the year 2020 to 2024 and due to non-supply within the stipulated time period, the stock of the medicine had taken as zero on several occasions until 03 December 2024.		
(r)	Bids were invited from a direct supplier for the procurement of 72,000 units of Mebendazole Tablets USP 500 mg and the supplier had requested time to take a decision regarding the bid. After 03 months, the procurement committee had decided to send the bidding documents to the bidder again and after obtaining price agreement from the local representative of the supplier, the order was awarded to Rs. 919,800 for 3,000 units at Rs. 360.60 per unit. Accordingly, it was taken 19 months to get a procurement decision and the supplier had delayed the supply stocks by one month. This item, which is purchased from the same supplier from the year 2020 to 2024, was in short supply in the years of 2020, 2023 and 2024.	The procurement committee has decided to discuss with the registered supplier of the Medicines Regulatory Authority in a situation where stocks if the drug with the brand name VERMOX should be maintained in the pharmacy system and it has taken 9 months to issue the procurement decision due to that it was taken time to determine the price during the procurement process.	Procurement management should be carried out in accordance with the Government Procurement Guidelines and its amendment as updated from time to time. Control mechanisms should be established to allow for the selection of alternative medicines and suppliers.
(s)	The departmental procurement committee had decided to call for direct quotations from the manufacturer thorough the local representative of Fuji Film regarding the procurement of 1,280,000 units of Film Laser Blue Dry CR, DR,CT,MRT. The procurement committee had awarded the order to the foreign company of Fuji Film for US$ 1,860,480 at US$ 1.4535 per unit without the approval of the Technical Evaluation Committee and as 320,000 units were available locally, the purchase order was reissued to the local agent upon the request of the local agent to issue local letters of credit for that purpose. The remaining total stock units were also purchased from the local supplier and sometimes, the	The reason for purchasing this item locally was due to the difficulty in purchasing directly from the manufacturer due to supply chain disruptions caused by the Covid pandemic in the country during the time of supply. The order received from the Medical Supplies Division had not include a recommendation for competitive procurement and only stated that the item should be compatible with Fuji machines.	-Do-

	performance security had also expired before completion and an advance payment of Rs. 53.10 million or 100 percent had been paid for 80,000 units without obtaining an extension.		
(t)	The single bidder who submitted a bid for the procurement of 36,000 rolls of Cotton crepe bandage (7.5 cm x 4.5m) costing US$ 25,920 had not submitted a bid security and the validity period of the bid price was not mentioned in the submitted bid documents. The supplier had supplied the goods with a delay of one month and the performance security had expired by the date of the goods were released fork the port. The selling price per unit was determined as Rs. 615, with adding clearance cost and a profit percentage of 63 percent as the price submitted by this bidder, who was a single bidder, but it was double the competitive price in the market. It was observed that due to this purchase without understanding the prevailing market price, if the sales continue in the current sales pattern, the Corporation will have to incur a loss of Rs. 5.78 million as at 20 March 2026, when the stock expires.	Agree with the observation and it will be corrected in future. That the Sales Promotion Committee has already made a 50 percent price revision to sell the stock before it expires.	Procurement management should be carried out in accordance with the Government Procurement Guidelines and its amendment as updated from time to time. Action should be taken to recover incurred any damages or losses from the responsible officers due to failure to do like that.
(u)	The Chairman of the Pharmaceuticals Corporation had signed an agreement to provide 5,000 tablets of the drug Favipiravir (Avigan 200 mg) worth US$ 25,000 imported for clinical trials to hospitals for testing purposes and to collect and provide relevant information with contrary to the Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka date 14 October 2019 and the National Medicines Regulatory Act No. 05 of 2015. Although the Medicines Regulatory Authority has recommended that this drug be stored under specified conditions until a	If the item was released, it was in accordance with the instructions received from the then State Ministry of Health and the Corporation had not occurred any financial loss in this regard.	A formal independent investigation should be conducted regarding violations of the National Medicines Regulatory Authority Act and take further action.

specific decision is taken in this regard due to this drug is currently in clinical trials in several countries and as it is not suitable for use, the Pharmaceutical Corporation had priced this medicine and issued 100 tablets to the Maharagama state pharmacy (Rajya Osusala) and 40 of them were issued to the Homagama base hospital at a price of 1,500 each. However, as per the decision to return this medicines, the medicine, the medicine was re-exported back to the supplier without being used.

3.4 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
The construction of the Diyathalawa state pharmacy (Rajya Osusala) commenced in the year 2015 and an expenditure of Rs. 9.37 million has been incurred for it until the end of the year under review and Rs. 3.37 million out of that had been paid as consultancy fees. Nearly 10 years had passed until 02 April 2025, but the construction work had not been completed. Furthermore, although nearly 5 years had been spent on the renovation of the Colombo 07 pharmacy (Osusala) building from the year 2019 to 2024 with incurring an expenditure of Rs. 21.27 million, those repair works also had not been completed until 30 June 2025.	The hostel of the Road Development Authority had been in the Diyathalawa land and that they were delay in leaving. Due to that the contractor did not agree to the proposed payments in advance for price increases due to the economic crisis, the contract was terminated and re-bids were called and the contract was awarded on 18 October 2024. Tenders have been invited for the renovation of the Colombo 07 pharmacy (Osusala) building and the relevant bid evaluation process is being carried out by the Central Engineering Consultancy Bureau, which is the consulting firm.	Appropriate and immediate steps should be taken to correct the deficiencies.

3.5 Human Resource Management

	Audit Observation	Comments of the Management	Recommendation
(a)	It was observed a discrepancy between the marks given by the interview board as per the file related to the recruitment of 12 persons for the posts of workers in the year 2024 and the marks mentioned in the report submitted to the approval of the Board of Directors and the difference in the procedure for awarding interview board marks submitted with the prepared Director Board paper. Accordingly, although the Board of Directors had approved the recruitment of 8 officers, 4 of those recruited officers were unqualified applicants.	Due to the same criteria were used to given marks to the candidates for the interview and since those candidates had scored minimum marks, the adjustment was made based on a management decision that it was appropriate to re-arrange the order in which the interview marks were awarded to more closely match the relevant designation. Accordingly, the applicants have been selected due to the changes of their marks.	Since changing the interview marks later is an irrational and illegal management decision, a formal independent investigation should be conducted and disciplinary action should be taken against the responsible officers.
(b)	When recruiting for the post of Management Assistant in the year 2024, some qualified applicants had been treated unfairly due to awarding marks based on their special skills to some officers who did not mention any special skills among the selected 7 applicants. Accordingly, an officer who had not been given marks for service experience and special skills in the interview held on 30 March 2024 was recruited after being given marks for service experience and special skills in the interview held on 18 July 2024.	Although the interview summary report has been prepared based on the applications submitted by the candidates, the interview board has awarded these marks in relation to special skills based on the certificates submitted by these applicants in relation to special skills during the interview.	A formal independent investigation should be conducted and taken further actions.
(c)	Two scoring procedures were followed during the interviews conducted on 17, 18 and 19 January 2024 and 10 July 2024 to recruit officers for the posts of workers in the Corporation. Applicants were treated unfairly by following two different scoring procedures in two interviews conducted for the same position within two months.	On the management decision that it was appropriate to re-arrange the interview marking system to be more consistent with the relevant position due to that the low marks were scored by the participated candidates, the interview board re-assigned the marks and made	A formal independent investigation should be conducted and disciplinary action should be taken against the relevant officers.

		appropriate adjustments and submit after submission that matter to the interview board.	
(d)	The position of Deputy General Manager (Marketing) remained vacant from more than a year from 07 November 2022 to 11 March 2024. Although the officer selected by Board of Directors' decision dated 26 June 2024 had assumed duty on 20 August 2024, an Acting Officer had been appointed from 15 March 2025 upon the resignation of that officer.	Although there is a vacancy in the post of Deputy General Manager (Marketing), the activities of all the divisions under the Marketing Department have been delegated to the respective Heads of those divisions and an internal procedure has been prepared an informed in writing to everyone to refer the Managing Director and General Manager for necessary instructions.	Action should be taken to recruit officers for vacant positions according to the recruitment procedure.
(e)	Although newspaper advertisements had been published on three instances in the year 2023 to recruit an officer for the post of Deputy General Manager (Technical, Laboratory and Production), recruitment had not been done. In lieu of appoint an officer who has fulfilled the qualifications specified in the service minute or recruitment procedures relevant to the post, employed in an equal position or immediately equal below position or has being employed and confirmed in his regular post to act in the post of Deputy General Manager (Technical, Laboratory and Production), an officer who had been temporarily suspended from the post of Deputy General Manager (Finance) had been appointed to act until a disciplinary investigation was completed and a decision was reached as she had not qualifications for the position.	The applicant who participated in the interview held for this position on 04 April 2023 was not appointed to the position due to insufficient marks. According to the advertisement published again on 04 June 2023, the selected applicant resigned from the service after working in only one month and the officer who was working in the post of Deputy General Manager (Finance) was temporarily appointed to the post of Deputy General Manager (Technical, Laboratory and Production) until a formal disciplinary investigation is completed and taken a decision.	Action should be taken to recruit qualified officers for the relevant posts according to the recruitment procedure, without using vacancies to resolve the issues of the accused officers.

(f)	An officer currently employed in the Corporation is being investigated for an offense and selected at the interview held on 18 June 2024 to recruit an officer for the post of Deputy General Manager (Procurement and Imports) and the appointment had been suspended until given the decision of the relevant disciplinary investigation.	Agree with the observation and since the investigation about the issue of this officer is ongoing, further action will be taken after receiving the decision regarding the investigation.	Action should be taken to recruit officers for vacant positions according to the recruitment procedure, without targeting persons.