State Pharmaceuticals Corporation of Sri Lanka - 2012

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the State Pharmaceuticals Corporation of Sri Lanka as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1:2:1 Accounting Policies

Even though provision for bad and doubtful debts at 100 per cent had been made for the debtors balances of the Medical Supplies Division older than 05 years and the debtors balances older than 01 year of the other trade debtors except the Medical Supplies Division, those provisions had not been disclosed in the financial statements.

1:2:2 Accounting Deficiencies

The following observations are made.

(a) As the Debit Advices amounting to Rs.156,164,310 and Rs.1,953,152 relating to the drugs and surgical equipment supplied to the Director General of Health Services from the year 2006 to the year 2011 and the year under review respectively had not been brought to account, the debtors and the retained profit as at the end of the year under review had been understated by Rs.158,117,462.

(b) The drugs and surgical equipment valued at Rs.686,191,229 sold to the Director General of Health Services from the year 2007 to the year 2012 had been shown as stocks in transit.

(c) Out of the drugs and surgical equipment valued at Rs.189,893,482 rejected by the Medical Supplies Division, drugs and surgical equipment valued at Rs.132,212,356 had become unfit for sale. As provision of Rs.141,121,163 had been made in that connection, an over-provision of Rs.8,908,807 had been made.

1:2:3 Accounts Receivable and Payable

The following observations are made.

(a) Out of 49 distributors, 16 distributors selected on a decision of the Board of Directors had been allowed additional credit facilities of 75 per cent over the approved credit limit. The total credit provided in the year amounted to Rs.127 million. In addition, credit facilities exceeding the approved credit limit amounting to Rs.13.6 million had been allowed to 10 distributors which included 05 distributors who had obtained additional credit facilities and 05 distributors who had obtained approved credit facilities.

(b) Out of the 80 Agencies, 08 institutions selected according to the above decision of the Board of Directors had been allowed additional credit facilities of 75 per cent and the total amount so allowed amounted to Rs.4.2 million. In addition, 09 institutions which included 02 of the 08 institutions that obtained additional credit facilities and seven institutions that had obtained approved credit facilities had been provided credit facilities amounting to Rs.1.2 million exceeding those limits.

(c) Credit facilities exceeding the approved limits had been allowed for 22 clients in the sale of drugs through OsuSala outlets and such facilities allowed amounted to Rs.2.5 million.

(d) According to the financial statements presented, out of the total trade debtors amounting to Rs.11,369 million as at 31 December 2012, a sum of Rs.11,108 million related to the Government and Semi-Government Institutions. That represented 97.8 per cent of the total trade debtors. A sum of RS.10,821 million out of the trade debtors relate to the supplies made to the Director General of Health Services and that represented 95.2 per cent of the total trade debtors.

(e) Out of the sum of Rs.10,821 million receivable from the Director of Medical Supplies, debtors balance older than one year amounted to Rs.2,177 million and the debtors balance older than 05 years amounted to Rs.552 million.

(f) The total debtors balance older than one year receivable from the private institutions amounted to Rs.10 million and the debtors balance older than 05 years totalled to Rs.0.8 million.

1:2:4 Lack of Evidence for Audit

The evidence indicated against the following items of account had not been furnished to audit.

Particulars	Value Rs.	Evidence not made available to audit
Debtors	2,048,012,299	Letters of Confirmation of Balances
Creditors	264,771,252	Letters of Confirmation of Balances

1:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliances were observed during the course of audit.

	Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a)	Public Finance Circular No. PF/PE/6 of 31 January 2000	Contrary to the circular instructions, the Pay As Your Earn Tax in respect of the preceding years and the year under review had been paid from the Fund of the Corporation. A sum of Rs.870,261 had been paid as the Pay As Your Earn Tax from the Corporation Fund during the year under review. The Pay As Your Earn Tax up to April 2013 had been paid with the approval of the Board of Directors. The Chairman informed me that the matter was discussed with the Trade Union over a long period and that it had been decided to recover the tax from the employees with effect from May 2013.
(b)	National Procurement Agency Circular No. 9 of 01 March 2006.	
	(i) Section 2.9.1	The Chairman and Members of the Major Procurement Committee had been paid allowances at the rates of Rs.17,500 and Rs.15,000 respectively and the Chairman and the Members of the Minor Procurement Committee had been paid

			allowances at the rate of Rs.12,500 and Rs.10,000 respectively during the year under review. Accordingly the Chairman and the members of the Procurement Committees had been overpaid Procurement Committee Allowances totaling Rs.3,981,750 during the year under review in terms of the letter No. SH/65/2007 dated 19 July 2010.
	(ii)	Section 2.9.1	Certain meetings of the Procurement Committee for which allowances had been obtained had been held during office hours.
(c)	Public Enterprises Department Circular No. PED/12 of 02 June 2003. ------------------------------------		
	i.	Section 6.5.1	Even though the Draft Annual Report should be furnished to the Auditor General within 60 days after the close of the financial year as specified in the Circular, it had not been so done.
	ii.	Section 6.5.3	Even though the Annual Report should be tabled in Parliament within 150 days after the close of the financial year, the Annual Report for the year 2011 had not been tabled in Parliament.
(d)	Public Enterprises Department Circular No. PED/ 57 of 11 February 2011		Contrary to the circular provisions the Corporation had paid Rs.13,800,000 in the year under review to non-Governmental institutions as grants and sponsorships payments.

1:2:6 Transactions of Contentious Nature

The Corporation had written off from books debtors balances amounting to Rs.14,670,857 in accordance with the decision of the Board of Directors No. BP/61/12 of 30 March 2012. The debtors balance written off included a sum of Rs.4,237,061 recoverable from the Medical Supplies Division, a sum of Rs.9,612,367 receivable from other 32 Government institutions and a sum of Rs.821,428 receivable from 38 private customers. It was also revealed that 06 private debtors out of the 71 debtors are not customers of the Corporation any more.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operations of the Corporation for the year ended 31 December 2012 had resulted in a pre-tax net profit of Rs.464,612,012 and that as compared with the pre-tax net profit Rs.321,975,574 for the preceding year indicated an increase of Rs.142,636,438. The Corporation had earned an operating profit of Rs.799,720,426 for the year under review before charging the finance expenditure of Rs.339,052,139. That as compared with the operating profit before charging finance expenditure for the preceding year amounting to Rs.740,768,935 indicated an increase of Rs.58,951,491 in the operating profit.

2:2 Review of Financial Results

Significant data relating to the financial results of the Corporation together with the corresponding data for the preceding year are given below.

	Year 2012	Year 2011
	Rs.million	Rs.million
Turnover	21,610.2	17,375.5
Cost of Sales/ Direct Expenditure	19,425.4	15,551.3
Gross Profit	2,184.8	1,824.2
Operating Profit	799.7	740.8
Finance Income	3.9	4.1
Finance Expenditure	339.1	422.9
Net Profit (Pre-tax)	464.6	322.0
Tax Expenditure	205.3	228.5
Net Profit (after tax)	245.0	89.8
Gross Profit Ratio-Percentage	10.1	10.5
Net Profit Ratio – Percentage	1.1	0.5
Stock Turnover Ratio-Turns	7.9	4.6
Stock Turnover Ratio – Days	47	79
Debtors Turnover Ratio – Turns	2.6	3.9
Debtors Turnover Ratio – Days	140	94
Creditors Turnover Ratio Turns	36	28

Creditors Turnover Ratio – Days	10	13

The following observations are made.

(a) As compared with the Gross Profit and Net Profit Ratios of the preceding year indicated a decrease of the Gross Profit Ratio and an increase of the Net Profit Ratio for the year under review.

(b) The reconciliation of the Stock Turnover Ratio for the year under review with the Stock Turnover Ratio for the year 2011 indicated an increase of 3.3 in the turns while the Stock Turnover Time had decreased by 32 days.

(c) The Debtors Turnover Ratio for the year under review had decreased by 1.3 while the debit collection time had increased by 46 days. The debt recovery process of the Corporation was not effective and that had directly affected the cash flow of the Corporation.

(d) Reconciliation of the Creditors Turnover Ratio for the year under review with the Creditors Turnover Ratio of the preceding year indicated as increase of 8 turns and credit payment time had decreased by 03 days. As such there was a delay in the settlement of debts by the Corporation due to weaknesses in the cash flow of the Corporation.

(e) A high gearing situation in the Corporation during the year under review while 70 per cent of the total loan capital had been represented by the Bank Overdraft. The Bank overdraft as at 31 December 2012 amounted to Rs.7,896.7 million and indicated an increase of 67 per cent over the preceding year.

2:3 Operating Review

2:3:1 Osusala Operations

		2012	2011	2010	2009	2008
Number of Osusala Outlets in Operation		28	25	25	23	21
Turnover (Rs. Millions)		2,185.9	1,974.8	1,840.2	1,691.4	1,398.2
Purchases	- Local (Rs. Millions)	1,189.8	963.3	918.7	791.7	609.7
	- Imported (Rs. Millions)	718.4	678.8	683.7	677.7	594.6
Profit earned (Rs. Millions)		134.1	102.6	96.6	97.4	44.2
Number of Loss making Osusala Outlets		10	09	06	04	10
Loss incurred (Rs. Millions)		8.1	7.2	7.02	3.8	9.16

The following observations are made in connection with the operation of the Osusala Outlets.

(a) 28 Osusala outlets of the Corporation had been in operation in the year 2012 and out of that, the 05 Osusala outlets at Jaffna, Polonnaruwa, Piliyandala, Kalutara and Ratmalana commenced sales in the year under review and 02 Osusala outlets operating in the preceding year had ceased their sales transactions in the year under review.

(b) Out of the 28 Osusala outlets in operation in the year under review, 18 had earned profits while 10 had incurred losses. Such loss amounted to Rs.8.1 million. The Osusala Outlets at Avissawella, Ampara and Meegoda continued to incur losses from the year 2010.

(c) Out of the 05 Osusala outlets that commenced sales in the year under review, 04 Osusala Outlets, except the Osusala at Ratmalana had incurred losses. The losses of the 04 Osusala outlets amounted to Rs.5.1 million.

(d) Karapitiya Osusala that had earned a profit in the preceding year had incurred a loss in the year under review. The profits earned by the Osusala outlets at Kandy, Galle and Diyatalawa in the year under review had been less than that of the preceding year. The Sales of the Osusala Outlets at Meegoda, Negombo and Diyatalawa in the year under review as compared with the preceding year indicated a decrease.

(e) The local purchase of drugs by 18 Osusala outlets other than those at Avissawella, Minuwangoda, Kurunegala, Ampara, Badulla – Sathosa, Diyatalawa, Jaffna, Rathmalana, Polonnaruwa and Kalutara had been at a higher level and the total value of drugs and surgical material purchased during the year under review for the Osusala outlets amounted to Rs.1,908.2 million and a sum of Rs.1,189.2 million or 62 per cent represented local purchases. Accordingly, the Co-operation had shown a trend towards the sale of locally purchased drugs in preference to the imported drugs.

(f) Generally the Government Osusala outlets sell about 1,600 categories of drugs and out of that the turnover of about 150 drugs is very high. A very high shortage of drugs sold by 22 of in 28 Osusala outlets in operation in the year under review was observed. Details appear below.

Osusala	Shortage of Drugs in each Month (According to Category of Drugs)	
	Minimum (Items of Drugs)	Maximum (Items of Drugs)
Ampara	25	90
Anuradhapura	20	120
Awissawella	50	104
Badulla	10	28
Colombo 01	30	103
Colombo 04	20	59
Colombo 07	31	69
Galle	07	10
Hambantota	31	60
Jaffna	59	84
Jayawardanapura	08	10
Kandy	65	160
Karapitiya	15	55
Kurunegala	20	60
Maharagama	15	30
Matara	15	35
Minuwangoda	17	29
Negombo	23	40
Nugegoda	30	44
Panadura	25	45
Polonnaruwa	30	82
Ratnapura	35	60

The following observations are made in connection with the shortage of drugs at the Osusala Outlets.

i. Shortage of drugs existed in every month throughout the year at all Osusala outlets except the Osusala outlets at Jaffna, Jayawardanapura, Maharagama, Nugegoda and Polonnaruwa. The highest ranges of shortage of drugs existed from 10 to 60 at 14 Osusala outlets, 60 to 120 at 07 Osusala outlets and over 120 at 01 Osusala outlet. The lowest ranges existed from 10 to 30 at 16 Osusala outlets, 30 to 60 at 05 Osusala outlets and over 60 at 01 Osusala.

ii. The average monthly shortage of in the year 2012 at the Main Drugs Store at Ratmalana had been 125 categories of drugs. The minimum shortage for the year had been 100 categories of drugs and maximum shortage had been 158 categories of drugs.

2:3:2 Procurement

The following observations are made.

(a) Purchase of F/Lumber Discectomy Surgical Equipment Sets

i. The registration certificate obtained for the items in the Surgical equipment set obtained from the Cosmetics, Drugs and Devices Authority (CDDA) had expired before the issue of the indent to the supplier on 07 January 2011 and action had not been taken for the renewal of registration even by the time of clearing the goods from the port. Nevertheless, a letter of no objection for the purchase had been obtained for the Medical Technology and Supplies Division of the Ministry of Health.

ii. The surgical equipment which should have been supplied to the Medical Supplies Division in February 2008 had been supplied in June 2011 after a delay of 03 years and 04 months.

Those equipment sets had been rejected by the Medical Supplies Division due to incorrect labels, lack of SR Numbers and the Invoice Numbers and the defects in the Invoices. Even though the goods had been supplied again in November 2013 after rectification of the defects, a period exceeding 05 years had elapsed by that time.

(b) Purchase of 24 million Tablets of Ibuprofen 200 mg Drug

The following observations are made.

i. At the time of issuing the Indent No.SPC/P1/369/11 dated 11 August 2011 to the supplier for the purchase of the above drug, the Registration Certificate No. PR-041003 issued by the Cosmetics, Drugs and Devices Authority had already expired. Nevertheless, the certificate had been renewed on 16 September 2011. The Chairman informed me that the Local Agent had obtained it from the Cosmetics, Drugs and Devices Authority on 16 September 2011 and that it had been made valid for 05 years with effect from 04 August 2011.

ii. Out of the 12 million tablets purchased, 4.6 million tablets had been sold and the balance 7.4 million tablets had discoloured and unfit for sale by January 2012. The cost of that amounted to about Rs.2.79 million.

iii. Even though the Import Manager had informed the Technology Division that the stock supplied had satisfied the specifications, the Manager of the Quality Control Laboratory had, by his letter dated 23 January 2012, informed the Deputy General Manager, Technology and Laboratory that drug had failed the quality tests. As such the basis on which the Import Manager certified that the drugs had satisfied the specifications was not disclosed to audit.

iv. Out of the quantity of tablets supplied 41 per cent, that is, 4,952 packs of 1,000 tablets each had been sold by the time of identifying that the drug had failed the quality tests on 23 January 2012.

v. Even though the supplier had agreed to supply new tablets in place of 7.248 million quality failed tablets value at Rs.2,972,382 between a period of 45 to 60 days, action had not been taken up to date to obtain that quantity of tablets.

(c) Surgical Equipment Costing Rs.1,347,696 deprived of to the Corporation (Indent No. DHS/SUS/19/361A/2009)

The following observation is made.

Even though 13 cartons containing 6 items of surgical equipment valued at Rs.1,347,696 (US$ 11,654.20) had been received at Sri Lanka Ports Authority in July 2010 from the supplier, the Corporation had not been able to clear the surgical equipment as the Bill of Lading and the Invoice relating thereto had been in the name of the Local Agent. As Sri Lanka Customs had recommended the destruction of the equipment a loss of Rs.1,194,946 had been caused to the Corporation. According to the Minutes of the Board of Directors No. BP/4/12 of 20 January 2012, Sri Lanka Ports Authority had sold the equipment. As such it was observed that the correct information on that stock had not been presented to the Board of Directors.

(d) Purchase of 61,200 valves of Clarithromycin powder of reconstitution for intravenous Infusion 500 mg

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The following observations are made.

i. On a request of the Medical Supplies Division, 30,000 valves had been imported and handed over to the Medical Supplies Division on 02 May 2011 and the Medical Supplies Division had, by letter dated 24 May 2011, informed the Corporation that a test check of the stocks revealed the existence of damaged valves.

ii. Nevertheless, action had been taken on 31 May 2011 to amend the Letter of Credit increasing the amounting to Rs.9,250,386 (US$ 167,400) for the import of the balance stock to Sri Lanka. Out of that stock 16,200 units and 15,000 units had been cleared from the Port on 30 July 2011 and 05 September 2011 respectively.

iii. According to the letter dated 02 November 2011, National Drugs Quality Control Authority had informed that the subsequent stock of 16,200 valves and the 15,000 valves in the stores should be removed from use. But action had not been taken up to date for the recovery from the supplier a sum of US$ 11,384 out of the total of US$ 98,066 receivable by the Corporation.

iv. Action had not been taken for the recovery of 10 per cent retention money on the Letter of Credit amounting to Rs.1,840,440.

(e) Purchase of Cannulated Screw Surgical Equipment (Indent No. DHS/SU/221/825B/08)

The following observations are made on the above purchase supplied in several instances.

i. The above stock of surgical equipment valued at Rs.5,723,492 which should have been supplied in January 2008 according to the Indent No. MSD/SC/052/08/5 dated 11 July 2007 of the Medical Supplies Division had been handed over to the Medical Supplies Division on 07 May 2010 after a delay of 2 years and 9 months.

According to paragraphs 20 and 21 of the bid documents samples should be checked in two instances in the procurement process. Nevertheless, any sample checks done in the import of the surgical equipment was not revealed to audit.

ii. The Medical Supplies Division had rejected the 7,250 units valued at Rs.1,338,398 (US$ 11,760.97) imported under Invoice No. 4633 of 10 March 2010 due to incomplete Invoice and the non-indication of the date of expiry. In addition, the letter dated 27 January 2012 revealed that according to a check of the stock of equipment carried out by a Doctor, the equipment had failed the quality tests. The stock had been retained idle in the stores up to date.

The value of the Debit Note No. 000339/2012 of 10 December 2012 amounting to Rs.1,393,189 (US$12,242.44) relating to the 7,250 units of Invoice No. 4633 rejected by the Medical Supplies Division and the short supply of 16 units out of the stock imported under Invoice No. 4650 and taken over by the Medical Supplies Division had not been settled.

(f) Purchase of Gentamicin Injection BP 80 mg/2ml (Indent No. SPC/P1/509/10)

The following observations are made.

i. Even though 240,000 units of Gentamicin Injection BP 80mg/2ml which is identified as a fast selling drug in the Osusala Outlets of the Corporation should have been supplied in 3 stages of 80,000 units in March, July and November 2010, the periods of supply of that amount had been altered by a newspaper advertisement on 08 November 2009.

ii. Out of the 06 suppliers responded only one supplier had produced samples and that samples as well had failed the quality according to the quality report.

iii. According to paragraph 20.1 of the bid documents, all suppliers should produce samples with the bids and according to paragraph 20.4 it is a compulsory requirement and if not produced, the bid should be cancelled. But the bid had been awarded to one supplier on the condition of pre-shipment testing of samples. The bid had been cancelled as the samples had failed the quality tests in two instances.

iv. According to the Indent No. SPC/P1/509/10 issued to the selected supplier the period of supply had been changed to the first 100,000 units as urgent and the second and third as advised. Accordingly, the Indent issued by the Stock Control Division indicating the stock requirement period after checking the stocks had been changed in 04 instances without adducing any reason.

v. According to paragraph 2.3 of the Guidelines for Procurement of Pharmaceuticals, the registration of the suppliers with the Cosmetics, Drugs and Devices Authority should remain valid at least for a period of 06 months after the import of drugs and surgical equipment. Nevertheless, the registration of the supplier had expired on 28 April 2011, that is, before the stock of drugs was received by the stores of the Corporation. A letter of no objection had been received in lieu thereof.

vi. This stock of drugs had been out of stock in the stores of the Corporation during the period August 2010 to May 2011 and as such the Corporation had failed to satisfy the customer demand for this drug.

vii. According to the Quality Report No. 578/4R1A1-40 dated 07 September 2011 the stock had failed the sample quality tests carried out after the receipt of 100,000 units of drugs by the store due to the lack of alkalinity and PH value and by that time 15,360 units of this stock had been sold.

viii. The Debit Note No. 000029 dated 27 February 2012 issued by the Corporation for loss of Rs.682,456 resulting from the quality failed balance stock of 84,640 units had not been settled up to date. This loss had been caused due to the import of drugs based on the pre-shipment sample test report despite the fact that the drugs supplied by the supplier in two previous instances referred to above had failed the quality tests.

(g) Purchase of Motor Vehicles

The following observations are made.

i. Bids had been invited from registered suppliers for the purchase of two lorries and 05 suppliers had forwarded bids. The bids of the first and second lowest bids had been rejected and the purchase had been made at

Rs.7,000,000 from the supplier who forwarded the third lower bid. As such the Corporation had to make an over payment of Rs.1,480,800 due to the rejection of the lowest bid.

ii. According to paragraph 09 of the Technical Report 90 per cent of the full value on the receipt of the 2 motor vehicles and 7.5 per cent after 03 months should be paid and the balance 2.5 per cent should be retained as retention money and paid after one year. Nevertheless, the total value amounting to Rs.13,240,800 had been paid to the supplier even before the expiry of one month after the receipt of the lorries.

2:3:3 Deemed Dividend Tax Payable

The deemed dividend tax payable by the Corporation on the profit after tax of Rs.259,329,589 had not been paid by the Corporation. As such the risk of payment of the deemed dividend tax not paid exists. The Corporation could not pay the deemed dividend tax in the year under review due to the unfavourable liquidity position of the Corporation. Out of the deemed dividend tax a sum of Rs.25 million had been paid in August 2013. The Chairman informed the audit that the deemed dividend tax payable for the year 2013 will be paid in December of this year.

2:3:4 Management Inefficiencies

The following observations are made.

(a) Even though a sum of Rs.122 million had been approved in the year 2010 for the construction of laboratory facilities in the premises of the Osusala situated in Colombo 07, no action on the construction except obtaining the approval for the construction, had been done even by December 2012.

(b) Even though the size of the Central Venous Catheter Double Lumen Adult Set – 149* 18G Lumens and 7Fr* 16cm purchased under Indent No. DHS/SWW/3/32L/08-09 as specified by the Medical Supplies Division and the size of the items shown in the price list furnished by the supplier differed from each other, the Corporation had given the order to the supplier.

i. Even though the Medical Supplies Division had ordered the surgical equipment with a shelf life period of 03 years the Corporation had failed to supply the surgical equipment sets with shelf life of 03 years to the Medical Supplies Division in all three instances.

ii. The Medical Supplies Division had rejected the 5,000 units valued at Rs.5,726,434 imported in the third instance. Even though those were retained in a rented store even one year after the expiry of the shelf life, the Corporation had failed to recover the loss from the supplier.

(c) The refundable container deposits amounting to Rs.6,310,000 made for the containers hired for the transport of drugs and surgical equipments from the port to the stores of Corporation/ Medical Supplies Division had not been recovered.

(d) According to the Decision No. 672 of the Board of Directors taken at the Board meeting held on 10 August 2012, container deposits totaling Rs.603,000 comprising Rs.359,500 due to unavailability of documents with the Corporation, Rs.153,500 due to the change of addresses of the Shipping Agents and Rs.90,000 due to the ceasing of the activities of the Shipping Agents, had been written off.

(e) The value of insurance indemnity for the damaged drugs amounted to Rs.10,055,770 and the details appear below.

Year	Value
	Rs.
2003-2005	552,256
2006	395,042
2007	526,248
2008	1,352,978
2009	1,004,189
2010	2,949,313
2011	1,183,562
2012	2,092,182
	10,055,770

The following observations are made in this connection.

i. The Corporation had not taken adequate courses of action for the recovery of indemnity amounting to Rs.3,830,713 receivable in respect of the years 2003 to 2009.

ii. A uniform basis had not been adopted by the Wharfs Division and the Accounting Division of the Corporation in the computation of the value of damaged drugs. The computation of the insurance indemnity receivable on a particular stock of damaged drugs computed by the Accounting Division and the Wharfs Division at Rs.9,919,753 and Rs.9,669,879 respectively can be cited as an example.

iii. Out of the value of a damaged stock computed by the Wharfs Division amounting to Rs.9,669,,879, insurance indemnity had been claimed only for a sum of Rs.2,226,330 while indemnity amounting to Rs.1,339,731 had been received.

2:3:5 Operating Inefficiencies

Drugs and surgical consumables had been stored in a store procured on rent and the following observations are made.

(a) Physical Security

Out of the entire stores building an area of 4,000 square feet had been procured on rent at Rs.100,000 per month for the storage of drugs and surgical consumables while the balance portion of the store had been used as the service area of a private company. As any person could gain access to the drugs store over the 15 feet tall wall separating the service section it was observed that the security of the stores was not adequate.

(b) Security of Quality

The drugs rejected by the Medical Supplies Division and the drugs and surgical equipment rejected due to problems relating to labels as well had been stored in the same store. As such stocks are kept in storage in a very warm and dusty premises, the risk of impairing of the quality and standard of the drugs existed.

2:3:6 Uneconomic Transactions

The Bank overdraft of Rs.4,716.7 million in the year 2011 had increased to Rs.7,896.7 million in the year 2012 and the Bank Overdraft interest paid thereon in the years 2011 and 2012 amounted to Rs.422.9 million and Rs.339.1 million respectively. Out of the Bank overdraft interest paid in the year 2012 the Treasury had agreed to return the interest paid from June to December 2012 amounting to Rs.247.6 million. The interest from January to May 2012 amounting to Rs.91.4 million had been written off to the profit of the Corporation.

2:3:7 Identified Losses

The following observations are made.

(a) The Medical Supplies Division had rejected drugs and surgical consumables valued at Rs.189,893,482 due to the following reasons.

Particulars	Value Rs.
Not Conforming to Specifications	85,418,284
Quality Failure	28,966,714
Damaged Packings, Delayed Receipt and rejection due to complaints	37,671,366
Expiry or nearing expiry of shelf life	23,175,946
Label Defects	14,661,172
	189,893,482

(b) Out of the drugs imported from the year 1996 to the year 2011 for sale by the Corporation, drugs valued at Rs.80,563,867 and drugs imported in the year 2012 valued at Rs.21,554,608 had become unsaleable and as such a loss Rs.102,118,475 had been incurred by the Corporation. The value of that stock according to the report on the physical stock verification amounted to Rs.111,341,885 and the reasons for the difference of Rs.9,223,410 had not been revealed.

2:3:8 Human Resources Management

The following observations are made.

(a) Vacancies as at the end of the year under review had been 105 and comprised 26 vacancies in the Executive Grades, 66 vacancies in the Non-executive Grades and 13 vacancies in the Minor Employee Grades.

(b) Six officers of the Corporation had been appointed to act in posts for periods ranging from 01 year to 07 years contrary to the Circular No. 124 dated 24 October 1997 of the Ministry of Finance and Planning. In addition, there were delays of 04 years in making appointments to 03 permanent posts.

3. Accountability and Good Governance

3:1 Corporate Plan

Even though Corporate Plan for the period from the years 2007 to 2011 had been prepared in terms of the Public Enterprises Circular No. PED/12 of 02 June 2003, Corporate Plans had not been prepared for the years 2008 , 2009, 2010, 2011 and 2012. As such the Corporate Plan had not been made use of as an instrument of management for the achievement of the goals and targets of the Corporation.

3:2 Action Plan

The following observations are made.

(a) According to the Public Enterprises Circular No. PED/12 of 02 June 2003, the managers responsible for the achievement of the goals and targets should be clearly stated in the Action Plan. But the managers responsible for the activities of the Action Plan except for a few, had not been included in the Action Plan prepared.

(b) The Action Plan prepared for the year 2012 as an extension of the Corporate Plan for the years 2007 to 2011 included 08 activities for execution in the year 2012. Nevertheless the Corporation had failed to achieve 04 of those goals, that is, the establishment of a Management Information System, Promotion of Laboratory Facilities, Improvement of the condition of Osusala Outlets and establishment of Osusala Outlets in selected areas, in the year under review.

3:3 Budgetary Control

Significant variances were observed between the budget and the actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control. Such variances in 23 items ranged between 18 per cent to 148 per cent.

4. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

(a) Procurement Process
(b) Stock Control
(c) Accounting
(d) Accounts Receivable and Payable
(e) Taxes
(f) Human Resources Management
(g) Compliance with Laws, Rules and Regulations
(h) Osusal Operations
(i) Corporate Plan and Action Plan
(j) Budget