State Pharmaceuticals Corporation - 2022

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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 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, 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 2022, 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 Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation

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

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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 and its materiality depends on the influence on economic decisions taken by users 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 of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with the Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Due to non-annual review of residual value and useful life for non-current assets as per paragraph 51 of Sri Lanka Accounting Standard 16, even though fixed assets costing Rs.178.82 million were fully depreciated, continued to be used. Accordingly, the estimated error had not been corrected in accordance with Sri Lanka Accounting Standard 8	Although it was submitted to the government's assessment department to accomplish this task in 2022, the final report was not provided to us before the accounts were settled. Action will be taken to rectify in the year 2023.	Action should be taken according to Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
a)	The value of the gratuity payable account was understated by	Our accounting policy is to make the relevant payments through the salary	This error must be corrected.

	Rs.17.76 million and the value of the salary control provision account was overstated by Rs.16.38 million in the financial statements of the year under review.	control account as the employee gratuity payable is not remain for a long period of time. The gratuity payable account value of Rs.76,247 is an old balance. The amount of Rs.1.38 million has not been accounted for.	
(b)	Although the difference between the cost of the remaining stocks of the Government Pharmacies and the exchange value of those stocks as on 31 December 2022 should be adjusted as unearned profits, only Rs.65.01 million equal to 7 per cent of the stock exchange value was calculated as unearned profit without identifying the cost of the remaining stocks.	The Corporation does not have a computerized system designed to calculate accurately the exchange value of the stock remaining at the end of the year for the imported drugs transferred from the main warehouse to the pharmacies. The corporation calculates the exchange value of the remaining stock at the end of the year by subtracting the exchange rate from the average pharmacy stock. It was also accepted by the audit and had been in operation for many years.	The difference between the cost of the remaining stock in the pharmacies and the exchange value of that stock should be recognized and adjusted as unearned profit.

1.5.3 **Unreconciled Control Accounts or Reports**

	Item	**Value as per Financial Statement**	**Value as per corresponding records**	**Difference**	**Comments of the Management**	**Recommendation**
		Rs.million	**Rs,million**	**Rs.million**		
(a)	Balance due from Medical Supplies Division	51,591.79	47,604.57	3,987.22	Out of the outstanding balance of Rs. 51,591.79 million due from the medical supplies sector, Rs. 211.59 million will be written off from the books. The remaining balance of Rs.51,380.2 million is currently being compared with the balance due from the medical supplies department..	Balance reconciliations should be prepared with the medical supply department and the reasons for the relevant difference should be identified and corrected.

(b)	The cost of defective, expired and damaged medical supplies as of 31 December 2022 from the medical supplies purchased for sale by government pharmacies during the period from 1996 up to the year 2022	344.23	324	20.23	Formal disciplinary investigations were conducted to find out the reasons for this change and accordingly the relevant measures will be taken.	Steps should be taken to identify the reasons for the change and make the necessary adjustments as per applicable Financial Regulations.

1.6 Accounts Receivables and Payables

1.6.1 Accounts Receivables

	Audit Observation	Management Comment	Recommendation
(a)	Although as per the policy of the corporation, the sale value should be recovered from the respective trade debtors within 30 to 45 days from the date of sale, it was not possible to recover Rs.28.47 million for more than 5 years and Rs.29.11 million for between 1 and 5 years within the trade debtor balance of Rs.1,488.41 million as on 31 December 2022 due from private, public and semi-public institutions. Legal action was taken only to recover the loan balance of Rs.10.44 million which was more than 5 years old.	Although the debt amount has to be collected from the trade debtors, in the debt balance of Rs.1,488.41 million as at 31 December 2022, a sum of Rs.28.47 million due from private, public and semi-public institutions for more than 5 years remains effective. It includes Rs.14.62 million, which is the debtor value to be collected from the Parliament complex, Rs. 2.37 million, which is due from other government and semi-government institutions, and the debt balance of Rs. 10.44 million, which has taken legal action.	According to the policy of the corporation, debt recovery should be done efficiently within the period to be recovered and according to the agreement.
(b)	Out of Rs. 51,591.79 million due from the medical supplies sector as at 31 December 2022, a sum of Rs. 211.59 million from a period between 10 and 24 years and Rs. 3,253.05 million from a period	The said balance of Rs.211 million will be written off. The remaining balance of Rs.51,380.2 million is currently being compared with the balance due from the medical supply sector.	Action should be taken to settle or written-off the old loan balances formally.

	between 6 and 15 years had failed to be recovered. It was observed that above indicated Rs.211.59 million between 10 years and 24 years is a balance that has been requested to be written-off from the books.		
(c)	Out of Rs.424.42 million in advances due from suppliers as on 31 December 2022, a sum of Rs.1.05 million were receivables from 7 to 15 years and Rs.4.31 million receivables from from 3 to 5 years.	No comments.	Advances issued to suppliers but not settled should be settled within the prescribed period.

1.6.2 Cash Payable

Audit Observation	Management Comment	Recommendation
Out of Rs. 19,538.15 million in the bank bill payable account due on 31 December 2022, Rs. 909.18 million consisted of 100 per cent letters of credit and retention money that had not been paid to suppliers for more than 2 years, but action had not been taken to settle.	The money paid up to 31.12.2020 has been set off or taken as income.	Arrangements should be made to settle or take to income after investigate the unpaid amounts to suppliers over a long period of time.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka. 756 and 757 (2)	Although the fixed assets should be verified annually and copies of the board of survey reports submitted to the Auditor General, the board of survey reports for the year under review had not been submitted	The fixed assets of all the pharmacies have been verified and reports have been prepared and the asset verification of the head office is in the final stage. I will submit the final report to the audit as soon as it is prepared.	Action should be taken as per Financial Regulations.

		for audit even as on 16 May 2023.		
(b)	Public Enterprises Circular No. 95 dated 14 June 1994 and National Budget Circular No. 3/2022 dated 26 April 2022	An expenditure of Rs.3.72 million was incurred on behalf of 54 employees for the payment of gold pounds and cash gifts for the 51st anniversary of the corporation during the year under review without obtaining the approval of the Treasury.	It has been approved to maintain the non-salary benefits in the same manner through the collective agreement of the Sri Lanka State Pharmaceutical Corporation, which has been in operation for 03 years under the approval of the Treasury.	Action should be taken as per circulars.
(c)	Paragraph 2.1 of Public Enterprises Circular No. PED 08/2019 dated 17 December 2019	An e-procurement system was not established for the corporation's procurement activities.	That they tried to introduce the e-procurement system proposed to be implemented with the intervention of the Ministry of Finance for the procurement activities of the corporation and could not complete the work due to the practical problems that arose while doing so, and that they are working for this at a level that can be implemented in practice.	Action should be taken as per circulars.
(d)	Guidance on Corporate Governance in Public Enterprises Department Circular No. 01/2021 dated 16 November 2021			
	(i) Paragraph 4.3	Although the corporation should appoint a risk management committee to calculate the impact of financial and non-financial risks on the Corporation’s business operations and take appropriate measures to mitigate the risks affecting the Corporation’s operations,	The board of directors of the corporation has taken a decision that the assistance of a consulting service should be taken to identify the risks to the corporation and I would like to inform that a risk management committee will be set up with the assistance of a consulting service this year.	Action should be taken as per circular instructions.

		the said committee has not been appointed even as at 31 March 2023.		
(e)	Paragraph 3(x) of National Budget Circular No. 03/2022 dated 26 April 2022	Although it was stated that the loan facilities provided to the executive officers should be temporarily suspended, apart from that, Rs. 6.5 million was paid for 26 executive officers as distress loans.	That money will not be provided under advance accounts to the State Pharmaceutical Corporation of Sri Lanka	Action should be taken as per circular instructions.
(f)	Public Enterprises Circular No. PED 08/22 dated 21 December 2022	Although the leave due to the employees shall be calculated in accordance with the provisions of the Shop and Office Workers Act No. 19 of 1954 in payment of allowances on remaining leave, apart from that, Rs.49.34 million had been paid for sick leave during the year under review.	The relevant approval is covered by the collective agreement of the Sri Lanka State Pharmaceutical Corporation which has been operating for 03 years under the approval of the Treasury. It has been approved to continue the benefits provided till now in the same manner.	Action should be taken as per circular instructions.
(g)	Paragraph 3.2 of Public Enterprises Circular No. PED 09/22 dated 21 December 2022	Although bonuses shall not be paid to employees of public corporations and wholly government-owned companies whose wages and benefits are governed by collective agreements or similar understandings, apart from this, Rs.17.82 million was paid as bonus during the year under review at the rate of Rs.20,000 per employee on the approval of the Board of Directors.	Approval has been received for the payment of the annual bonus approved by the government through the collective agreement of the Sri Lanka State Pharmaceutical Corporation, which has been in operation for 03 years under the approval of the treasury.	Action should be taken as per circular instructions.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 931.58 million and the corresponding profit in the preceding year amounted to Rs.2,416.42. Therefore a deterioration amounting to Rs. 1,484.84 million of the financial result was observed. The reason for the deterioration is decrease in sales revenue by 58 percent.

2.2 Trend Analysis of major Income items

The vaccine import income in the previous year and the year under review were Rs.13,887.48 million and Rs. 141.47 million respectively and compared to the previous year, the income had decreased by 99 percent in the year under review. Also, the income related to purchases through the central purchasing unit was Rs. 2,765.07 million and Rs. 65.45 million respectively in the previous year and the reviewed year and compared to the previous year, that income had decreased by 98 percent.

2.3 Ratio Analysis

Compared to the previous year, the gross profit ratio increased by 1.06 percent, the net profit ratio decreased by 1.57 percent, the debtor turnover ratio decreased by 0.85 times and the debt recovery period increased by 181 days. By paying attention to this, the operations of the corporation should be made efficient.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The corporation had decided to establish an enterprise resource planning system in 2007 and 17 years had passed for that by the year 2023, but the goal had not been achieved. For the implementation of this project, 497 units of 09 items of computer accessories worth Rs.32.36 million were purchased in the years 2018 and 2019 and 36 units of 04 items of computers and accessories costing Rs. 2.55 million remained unused and idle in storage as at 17 March 2023.	Due to the failure of the enterprise resource planning project, the computer equipment purchased for that purpose will be used for other departments of the organization as per the need to avoid any loss.	Efforts should be made to utilize the existing assets with maximum efficiency.

(b)	Although payments should be made only within the recommended limits to the suppliers recommended by the committee formed to streamline payments to the suppliers, contrary to the decision of the 65th Committee which was last held on 08 June 2022, the corporation had made payments of Rs.525.25 million to 05 supply companies as of 02 September 2022.	• These payments have been made on the approval of the Chairman and the General Manager and reports related to those payments have been reported to the Board of Directors. • In that payment, the item which has not been paid and supplied for more than two and a half years has been taken into account. • Rs.60.69 million has been provided by the Global Fund Project for payments to one institution.	Payments to suppliers should be made in a formal manner.

3.2 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	That Rs.169.81 million has been recovered from the relevant suppliers as the total landing cost for the 16 indents identified as unresolved stock of Rs.155.16 million and on 14 June 2020, the Board of Directors had approved the destruction of stocks of 03 indentures worth Rs.21.59 million, but the stocks had not been destroyed by the date of audit, and the corporation had to bear additional costs for that.	Arrangements have been made to start the related stock abuse activities from 18/05/2023.	Efforts should be made to speed up the disposal proceedings.
(b)	The corporation had failed to collect Rs.1,529.83 million of debit notes out of Rs. 3,405.08 million issued by 31 December 2022 to be collected from suppliers for the costs, administrative charges and disposal costs incurred for supply of defective and damaged medicines to Medical Supplies Department. The collection of Rs.306.11 million, which was supposed to be recovered from the blacklisted suppliers as on 31 December 2022, remained uncertain.	Debit notes amount of Rs.54.19 million has been recovered from the suppliers as on 26.04.2023.That due to non-payment, the suppliers related to the invoices of Rs. 692.78 million will be blacklisted and legal action will be taken, that the debit notes amounting to Rs.20.89 million were determined as debit notes issued for supplies before the year 2013 and cannot be recovered, debit notes with a value of Rs.9.31 million is to be revised on the recommendation of the National Drug	Recovery from suppliers should be made efficient for the amounts not yet recovered,

		Regulatory Authority, that an amount of Rs. 14.12 million should be collected from the suppliers who do not deal with the corporation, and that the crediting of the value of debit notes amounting to Rs. 131.92 million has been temporarily suspended.	
(b)	According to the financial statements, the total cost of defective, expired and damaged drugs that were purchased for sale by the corporation as at 31 December 2022 was Rs.344.23 million and the total cost of defective, expired and damaged medicines during the year under review, was Rs.60.40 million. Out of the total cost of Rs.32.29 million of defective drugs in the previous year and in the year under review, Rs.23.68 million had not been recovered by 31 March 2023. The total loss incurred by the corporation due to expiry and damage of medicines was Rs. 156.50 million in the previous year and the year under review.	Every financial year, a report containing the details of failed, expired and damaged drugs is forwarded to the Deputy General Manager of the Sales Department for taking relevant actions.	Actions should be taken to recover the value of defective drugs from the suppliers, find out the reasons for the expiry of the drugs and take measures and recover the losses from the parties responsible for those reasons.
(e)	Among the stocks purchased for the medical supply sector for the year 2022, 19 items with a value of Rs.265.88 million had failed in condition and although debit notes amounting to Rs.177.70 million had been issued for 11 items, out of that an amount of Rs. 146.61 million had not been recovered from the suppliers.	Instructions were given to expedite the issuance and collection of debit notes.	Actions should be taken to recover the value of defective drugs from the suppliers.

3.3 Procurement Management

	Audit Observation	Management Comment	Recommendation
(a)	In relation to the purchase of 500 units of Trastuzumab (440 mg) injections worth Rs. 26.225 million for the needs of the medical supply sector in the year under review, the registration certificate of the National Drug Regulatory Authority submitted with the bid by the selected bidder was not a certificate issued by the Drug Regulatory Authority for that institution and that was a certificate issued by	That a document authorizing the procuring entity has been submitted with the bid, that the validity period of the bid has been extended by a notice published	Arrangements should be made to award the bid to the supplier with the registration certificate of the Drug Regulatory Authority.

		the Secretary to the State Ministry of Pharmaceuticals, Supplies and Regulation to a company that had notified it to temporarily stop all purchases until further notice. Also the registration certificate submitted had expired. Although the Technical Evaluation Committee which evaluated the bids had recommended that the bid be awarded to the lowest bidder only subject to submission of a valid registration certificate issued by the National Drug Regulatory Authority, without considering the recommendation of the Technical Evaluation Committee, the Ministry Procurement Committee had decided to award the bid to the bidder who did not submit a valid registration certificate from the National Drug Regulatory Authority.	by the Drug Regulatory Authority, and that the Procurement Committee has the power to agree or disagree with the recommendations of the Technical Evaluation Committee.	
(b)		5,845,000 units of Furosemide Injection BP 20 mg/2 ml were purchased at a cost of Rs.35.76 million in the years 2016, 2017 and 2018 for the needs of the medical supply sector. The following observations are made in this regard.		
	(i)	Due to deficiencies observed in the receipt of the stock of 99,000 doses of vaccines supplied to the Medical Supply Division, the supplier had provided the Accelerate Stability Report on the notification given to the supplier that this stock was not acceptable and to provide the Product Stability Report and as stated in it, the manufacturer company had informed that the relevant drugs are in compliance with the required standards and specifications. But it was observed during the audit that the letterhead that was notified was a prepared letterhead rather than the letterhead used by the production company and although the quality control manager's signature and format of the vaccine analysis certificates issued from time to time by the manufacturing company in relation to the total number of units ordered were also different, the procurement entity did not take any notice of those differences.	Not commented	The procurement committee should exercise due care in its evaluations.
	(ii)	According to the written data of the Sri Lanka Customs Department, in relation to the above	Not commented	During the procurement process, the applicable

	supply, the supplier had imported 3,898,900 doses of vaccines through two other import companies other than the registered manufacturer of the National Drug Regulatory Authority mentioned in the bid documents and it was observed that both those companies were not registered companies of the Drug Regulatory Authority.		ordinances should be followed.
(iii)	According to the inspection report of the National Medicines Quality Assurance Laboratory (NMQAL) which conducted the tests in relation to the complaints submitted by 2 Government Hospitals and the Medical Supply Department regarding this vaccine provided by the supplier, in the sterility test of the tested vaccines, it was observed that they did not comply with the British pharmaceutical specifications and in the samples of the vaccines received for testing and in the files submitted to the National Medicines Quality Assurance Laboratory (NMQAL) for registration, a different discrepancy was observed in the sample packages of the product. Based on the results of this test, all the hospitals and institutions of the state were informed to remove this vaccine from use immediately, and the related company was informed to remove it from private phamacies. Even when the awareness was made, the expiry dates of the stocks related to the years 2018 and 2019 had passed.	Not commented	Procurement management should be done in accordance with the Government Procurement Guidelines Code and its amendments as updated from time to time. Damages or losses due to non-compliance should be borne by the responsible officials. A formal independent inquiry into this procurement should be conducted and further action taken.
(iv)	Although the agency that conducted a forensic audit on behalf of the National Drug Regulatory Authority confirmed in writing to the audit, that the manufacturing company mentioned in the procurement documents and customs clearance documents as the manufacturer of the stocks related to these indents, did not supply any items to this supplier during the relevant period and has no knowledge regarding this procurement, the letters and certificates of analysis in the relevant procurement file were submitted on the letterhead of the manufacturing company. However, those letterheads were completely	Not commented.	

	different from the letterheads sent to the Cosmetic Devices and Drug Authority on 10 June 2015, stating that the manufacturer had appointed the supplier as its Sri Lankan representative, along with the bid documents.		
	(v) According to the physical inspection of the packaging obtained from the Colombo National Hospital, various differences were observed in the sample packaging that had been submitted to the National Drug Regulatory Authority for registration of this vaccine and the packaging that had been left in the Colombo National Hospital received by the Medical Supplies Division.	Not commented.	
	(vi) Although it has been referred to the legal department to blacklist the supplier company due to the above, the necessary work has not been done till now.	Not commented.	
(c)	79,500 units of Ceftriaxone Sodium for Injection BP 500mg costing Rs. 1.49 million were purchased from a supplier who did not have a valid registration certificate of the National Drug Regulatory Authority and according to the procurement documents submitted by the supplier and according to the documents submitted to the customs department at the time of importation, the drugs were imported by a company that was not registered with the National Drug Regulatory Authority without the company mentioned as the manufacturer of the vaccine. During the quality test conducted at the National Drug Safety Laboratory in respect of the stock supplied by the supplier to the Medical Supply Division, due to differences between the USP label requirement and the characteristics found in the existing labels, the stocks of the respective segments were notified to be withdrawn from use. Although the Corporation has informed the supplier to reimburse the cost incurred for the stocks withdrawn from service due to non-compliance with the required specifications, Although the Corporation has informed the supplier to reimburse the cost incurred for the stocks withdrawn from service due to non-compliance with the required specifications, without proceeding to blacklist the supplier who did not	Not commented.	A formal independent inquiry into this procurement should be conducted and further action taken.

	accept that a sum of Rs.273.6 million was paid to the supplier in the months of August, November and December 2022 after deducting the cost of Rs.1.86 million incurred due to the supply of substandard medicines from the suspended payments of the supplier.		
(d)	In relation to the order given for the purchase of 48,000 packaging units (5x10) of Diclofenac Potassium Tablates (50mg) for sale in government pharmacies, the order was awarded to the selected supplier for USD 11,904 at USD 0.248 per packaging unit. It took 167 days for the technical evaluation and procurement decisions for this procurement. Also, at the time of selecting the supplier, even though the registration of the supplier in the National Drug Regulatory Authority was over, it took 258 days to extend it, which was the main reason for the delay in the order. Also, the bidder had not submitted the registration certificate to the Corporation under the Public Contracts Act No. 03 of 1987. In the first 5 months of 2021, the monthly average sales of this drug were 5000 units and since June 2021, this drug has been in short supply in state pharmacies. As a result, the total sales lost to the corporation from June 2021 to August 2022 were approximately Rs. 9.75 million. Although this drug was also manufactured by the State Pharmaceutical Manufacturing Corporation, the corporation did not pay attention to either buying it or solving the shortage of drugs in the pharmacies.	Not commented.	Procurement management should be done in accordance with the Government Procurement Guidelines Code and its amendments as updated from time to time. Damages or losses due to non-compliance should be borne by the responsible officials.
(e)	In relation to an order given for the purchase of 30,000 packaging units of Etoricoxilo Tablats 60(mg) for sale in government pharmacies, the bid was awarded to the lowest second and lowest fifth bidders as 25 per cent and 75 per cent of the order respectively. However, the audit did not observe any reasonable cause for awarding 75 per cent of this procurement to the fifth bidder with a price increase of 153 per cent over the second lowest price. Also, a price increase of Rs.345 per unit was observed between the minimum price and the maximum price of this item, which is 128 per cent as a percentage. As 75 per cent of this procurement was awarded to the fifth lowest bidder instead of the second lowest bidder, the corporation had to bear an additional cost of Rs. 6.2 million, which had deviated from the	Not commented.	A formal independent inquiry into this procurement should be conducted and further action taken.

	corporation's objective of providing medicines at the lowest price. The drug was out of stock in pharmacies for 329 days.		
(f)	In relation to an order placed on June 26, 2020 to purchase 150,000 packaging units of Cetrize Syrup 5mg/5ml Bottle for sale in state pharmacies, although it was stated that the lowest bidder who offered Rs.29.25 per unit as the lowest price did not have the registration certificate of the National Drug Regulatory Authority, and the second lowest bidder who offered a price of Rs.71.30 per unit was awarded the order for Rs.69.93 per unit, but the lowest bidder had submitted the registration certificate in the bid documents. Not awarding this procurement to the lowest bidder even by renewing the registration of the National Drug Regulatory Authority to the lowest bidder, the corporation has to bear an additional cost of Rs.6.06 million and as a result, the purchase cost of this drug was 138 per cent higher than the minimum bid value and it was also deviated from the objective of providing the drug at the lowest price. Due to the failure of the supplier to supply 99,000 units of medicine, there was a situation of lack of stock in the state pharmacies.	Not commented.	A formal independent inquiry into this procurement should be conducted and further action taken.
(g)	According to a purchase appeal of the stock and control manager of the corporation regarding the indenture issued on 04 September 2020 to the supplier who offered the lowest price in relation to the purchase of 48,000 (25x10) packs of Clonazepam Tablets (0.5mg) at a cost of Rs.20.07 million, the first stock of medicines was received at the warehouse on 08 February 2021 and the last stock on 12 January 2022. At the time of preparing the purchase order, the stock of this drug had been exhausted 4 months ago due to re-ordering of this drug without paying attention to the stock level, the Ratmalana warehouse was out of stock for 3-4 months. According to the sales forecast of the medicine, as the stock is in line with the annual requirement and the stock is zero, the medicine should be purchased as soon as possible in accordance with the procurement procedure, but from the date of submission of the purchase order, it took almost 2 years to get the total amount of medicine to the warehouse. This drug was purchased from one supplier from 2018 to 2022, due to the corporation's	These stocks maintained the stock level in the pharmacy warehouses enough for several months and even though the stock in the main warehouse was zero for several months, this medicine is available in the pharmacies. Due to the corona epidemic situation, the same quantity of medicine was also delayed in reaching the warehouses. According to the stock reports of a few randomly selected pharmacies, there is no shortage of the drug.	The warehouse should reorder the required stock of drugs, paying attention to the reorder stock level.

	failure to procure the medicines on the dates mentioned in the indent, the sale of the medicine had been zero for more than two consecutive months on 6 occasions from March 2019 to August 2022, so the corporation had not received any sales income during that period.		
(h)	The procurement committee had decided to cancel the order and re-bid for the bidder who offered the lowest price of Rs.70.70 for the local purchase of 250,000 vials of vaccines of Cefotaxime Injection USP 1g based on the requirement of the medical supply sector, stating that the period in which the order can be supplied is long. Accordingly, the price was negotiated with the bidder who had offered Rs.540 per unit (on the basis of free supply of 65,000 vaccines) and it was agreed to purchase the effective price of a vaccine at Rs.399.60. The estimated price of a vial of vaccine was Rs.45.71 and the price of a unit of the first selected supplier was Rs.70.70, an increase of 774 per cent and 465 per cent respectively in the price of the selected supplier. The bidder selected in the second time had submitted the price in the first time as well and although the price was Rs.235, less than 2 months later, the tenderer had decided the price to be Rs.540 in the second invitation and the procurement committee had awarded the order without paying attention to it. Although the supplier selected in the second bidding had failed to supply the drug by 13 December 2019, the lowest bidder selected in the first bidding had claimed to supply 250,000 units of vaccine within 45 days but rejected it and bid again, but the selected supplier failed to supply the drugs within 30 days.	Not commented.	A formal independent inquiry into this procurement should be conducted and further action taken.
(i)	According to the purchase requition submitted by the Medical Supplies Division on April 1, 2016, 130,000 units of Ipratropium Pressurized Inhalation BP 20 Mcg/Puff were purchased at a value of Rs. 91.70 million and the following observations are made in this regard.		

(i)	In connection with this procurement, tenders were invited on three occasions and in the first instance, while the indenture was issued to the supplier and the letters of credit were opened, the supplier informed that the supply of the first batch for 09 months and the second batch for 13 months cannot be delayed according to a notice from the Director of Medical Supply Division. After the date on which the supplier agreed to supply the medicine, it was later informed that the medicine could not be supplied due to a technical defect in the product. According to the conditions of supply of medicine, it was informed that this procurement should be done as soon as possible by inviting limited bids as an urgent matter, but it was observed that this supply is not an urgent requirement by informing that the medicine should be obtained after a delay of 09 months.	Not commented.
(ii)	Although the National Drug Regulatory Authority registration certificate of the supplier submitted at the time of the third bid relating to the procurement had expired, the procurement committee awarded the order on 29 September 2017 for 130,000 units at a price of Rs.705.40 per unit at a value of Rs.91.70 million, subject to the conditions of obtaining the registration certificate under the Public Contracts Act No. 03 of 1987, but according to the invoices submitted to Sri Lanka Customs, the supplier had imported 130,000 units of medicine at a rate of Rs.14.13 per unit for Rs.1.84 million from a company not registered with the National Drug Regulatory Authority and supplied it to the medical supply sector at a higher price of 4892 per cent. The supplier had imported the manufactured drugs from a manufacturing company not mentioned in the tender documents.	Not commented.
(iii)	Although the purchase order dated 20 October 2017 had been issued to the supplier,	Not commented.

	before supplying medicines to the medical supply department, the approval of the medical supply department should be obtained for the package, label and government logo of those drugs, but the information was not submitted for the approval of the medical supply department. Also, it took more than a month to supply the first batch (6500 units) related to the order to the Medical Supply Division from the date of importation.		
(iv)	Contrary to Section 106(1) of the National Medicines Regulatory Authority Act No. 05 of 2015, this medicine imported by the supplier to the State Pharmaceutical Corporation was imported into Sri Lanka by a manufacturer other than the manufacturer mentioned in the tender documents the manufacturer's details mentioned in the bid documents were printed on the medicine packs.	Not commented.	Procurement management should be done in accordance with the Government Procurement Guidelines and amendments updated from time to time. Damages or losses caused by failure to do so shall be charged against the responsible parties. A formal independent inquiry into this procurement should be conducted and further action taken.
(v)	Inconsistencies were observed between the sample packaging of the medicine included in the file submitted to the National Drug Regulatory Authority for the registration of the imported medicine by the suppliers and the information contained in the patient instruction sheet and the information contained in the drug label in the packaging of the medicine given to the medical supply department and during the submission of bid documents, the supplier had submitted to the corporation statements about the local representative, compliance letters and analysis certificates of the relevant drug under the manufacturing company's letterheads and inconsistencies were observed in those letterheads also	Not commented.	

(vi) Considering this procurement as an urgent need, bids were invited within a short period of 09 days, but as per the agreement, the supplier was late for a period of 5 to 8 months to supply these stocks, but according to clause 10 of the agreement, no arrangements were made to collect the late fees.	Not commented.

3.4 Deficiencies in Contract Administration

Audit Observation	Management Comment	Recommendation
Although a sum of Rs.0.72 million paid in the year 2015 for the fixing of an elevator machine for the pharmacy located in Colombo 07 was shown under unfinished work in the financial statements of the year under review, the work of this elevator was not completed even though a period of 07 years had passed.	Not commented.	Arrangements should be made to en-cash the advance security.

4. Accountability and Good Governance

Annual Action Plan

Audit Observation	Management Comment	Recommendation
The Annual Action Plan for the year 2022 had not been prepared and approved in accordance with paragraph 2.3 (i) of the Guidelines on Corporate Governance of the Public Enterprises Department Circular No. 01/2021 dated 16 November 2021.	That the action plan for the year 2022 is part of the corporate plan prepared for the period 2021-2025	Action should be taken as per circular instructions.