

2017

වාර්ෂික වාර්තාව
ஆண்டறிக்கை
Annual Report



ශ්‍රී ලංකා රාජ්‍ය ඖෂධ නිෂ්පාදන සංස්ථාව
இலங்கை அரசு மருந்தாக்கற் பொருட்கள் உற்பத்திக் கூட்டுத்தாபனம்
State Pharmaceuticals Manufacturing Corporation of Sri Lanka



සමරු ඵලකයේ සටහන

අත්‍යවශ්‍ය ඖෂධ නිපදවීම සඳහා වූ මෙම ඖෂධ සංයෝග මධ්‍යස්ථානය ශ්‍රී - ලංකා ජපාන මිත්‍රත්වයේ සංකේතයක් ලෙසින් ජපන් රජය විසින් ශ්‍රී - ලංකා ප්‍රජාතාන්ත්‍රික සමාජවාදී ජනරජය වෙත කරන ලද පරිත්‍යාගයකි.

1987

நுழைவாயிலில் இருக்கும் பதக்கப் பலகை

இம் முக்கியமான மருந்துகள் தயாரிக்கும் மருந்தாக்கல் கலைகள் நிலையம் யப்பான் நாட்டிற்கும் இலங்கை சனநாயக சோசலிசக் குடியரசிற்கும் இடையே இருக்கும் நட்புறவு மற்றும் ஒருமைப்பாட்டின் அடையாளமாக யப்பான் நாட்டினால்

இலங்கை சனநாயக சோசலிசக் குடியரசிற்கு வழங்கப்பட்ட நன்கொடையாகும்.
1987

Plaque at the Entrance

This Pharmaceuticals Formulation Centre for the essential drugs is an outright gift by the Government of Japan to the Democratic Socialist Republic of Sri Lanka as a token of friendship and co-operation between Japan & the Democratic Socialist Republic of Sri Lanka.

1987



Annual Report - 2017

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

CONTENTS

Our Vision & Mission	3
Corporate Information	5
Establishment of SPMC and Key Objectives	6
Chairman's Review	7
Directors	9
Directors' Report	12
Report of the Audit Committee	14
Corporate Governance Report	15
Products Manufactured by SPMC	17
Statement of Director's Responsibilities	18
Statement of Financial Position	21
Statement of Comprehensive Income	22
Statement of Changes in Equity	23
Statement of Cash Flow	24
Corporate Information & Significant Accounting Policies	25
Notes to the Accounts	32
Auditor General's Report	45
Chairman's Comments on Auditor General's Report	63
Graphical Review	70
Financial Highlights for the past 10 years	73

OUR VISION

**To Be Internationally
Recognized, model
Manufacturing and
Marketing Organization for
Pharmaceuticals and Health
Care Products in South Asia**

OUR MISSION

OUR MISSION

**To Manufacture Safe,
Effective and Affordable
Medicinal Drugs of Superior
Quality up to International
Standards to the Local and
International Markets.**



CORPORATE INFORMATION

NAME OF THE ORGANIZATION

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

LEGAL FORM

Established in 1987 under the State Industrial Corporation Act No. 49 of 1957

DATE OF INCORPORATION

June 04, 1987

REGISTERED OFFICE

11, Sir John Kotelawala Mawatha,
Kandawala Estate,
Ratmalana,
Sri Lanka.

BOARD OF DIRECTORS

Dr. S. G. Samarasundera	-	Chairman
P. Suntharalingum	-	Managing Director
Dr. Susi Perera	-	Director
Dr. D. Wenkatheshwaran	-	Director
Miyuru Bhashitha Liyanage	-	Director
Shafeek Rajabdeen	-	Director
K. D. S. Ruwanchandra	-	Director

AUDITORS

Auditor General, No.306/72, Polduwa Road, Battaramulla.

BANKS

Bank of Ceylon
People's Bank
National Savings Bank

MANAGEMENT COMMITTEE

S.W.Jayasundara	-	General Manager
K.D.A.Kuruppu	-	DGM (Quality Control)
A.G. De S.Athuraliya	-	DGM (Finance)
S.P.Jayaweera	-	DGM (Production)
R. M. R. M. Ranasinghe	-	DGM (Formulation cum Research & Development)-Acting
P. D. Jayasundera	-	DGM (Engineering)
R. Darmadasa	-	DGM (Planning & Procurement)
S. W. C. Mohotti	-	DGM (Human Resources)
V.P.Muthukuda	-	Mgr. (Production)
V.J.Bandarawatte	-	Internal Auditor
C. D. Maginaarachchi	-	Mgr. (Human Resources)
A.C.P.Anandakumara	-	Mgr. (Planning & Procurement)
H.K.P.A.Senadheera	-	Mgr. (Quality Control)
Amila Nuwan Hewagama	-	Mgr. (Production)
D.H.J.Gunawardena	-	Mgr. (Engineering)
A.M.T.P.Kulasekara	-	Mgr. (Sales Promotion)
P.Danthanarayana	-	Mgr. (Production)
J.M.S.Jayasundera	-	Mgr. (Finance)
B. V. H. P. S. Kumara	-	Mgr. (Engineering)

AUDIT COMMITTEE

K.D.S.Ruwanchandra	-	Chairman
Miyuru Bhashitha Liyanage	-	Member
Shafeek Rajabdeen	-	Member

ESTABLISHMENT OF SPMC & KEY OBJECTIVES

SPMC was established in 1987 under the Industrial Corporation Act No. 49 of 1957.

In 2017, State Pharmaceuticals Manufacturing Corporation completed 30 years of commercial production of essential Medicinal Drugs for the Health care of the Sri Lanka population. SPMC product range consists of 72 products of tablets and capsules. Out of this product range 40 products were actively formulated during the year. SPMC is the only State Sector Corporation engaged in manufacturing pharmaceuticals in Sri Lanka.

The main functions are,

1. Manufacturing, processing, stocking, packing and re packing of drugs.
2. Provision of technical assistance for the manufacture and processing of drugs.
3. Pharmacological and pharmaceutical research and the standardization of drugs.
4. Marketing of drugs

All products released to the market meet with our in-house specifications (SPMC) in addition to the British Pharmacopoeias (BP) and United State Pharmacopoeias (USP) requirements.

Implementation of cGMP (current Good Manufacturing Practices) regulations and procedures are regularly monitored through internal quality auditing and factory inspection.

CHAIRMAN'S REVIEW

It is with great pleasure that I, on behalf of the Board of Directors present the Annual Report and Audited Financial Statement comprising the Statement of Financial Position, Income Statement, Cash Flow Statement and Auditor General's report for the year ended 31st December 2017.

State Pharmaceuticals Manufacturing Corporation (SPMC) was established in 1987 under the Industrial Corporation Act No. 49 of 1957 with the commitment to manufacture quality, effective and safe drugs at affordable prices to the public. SPMC is the largest and leading state pharmaceutical manufacturer in Sri Lanka. At present, SPMC manufactures 72 drug items under the generic names covering a wide range of pharmacological products. All products manufactured by SPMC have the required quality as per British Pharmacopeia (BP), United State Pharmacopeia (USP) and SPMC standards. Implementation of current Good Manufacturing Practices (cGMP), regulations and procedures are constantly monitored through internal quality auditing and factory inspection.

The pharmaceuticals manufacturing facility of the SPMC is equipped with modern Japanese, German and Korean machines. The manufacturing facility has an ultra-clean atmosphere and conforms to World Health Organization (WHO) and Current Good Manufacturing Practice (cGMP) requirements. SPMC products are valued and preferred by doctors, pharmacists and other professionals in the health sector. Our reputation as a manufacturer of quality pharmaceutical products is the key to our success.



PERFORMANCE

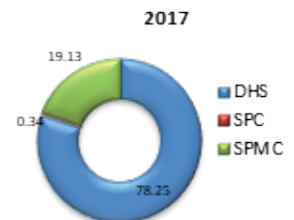
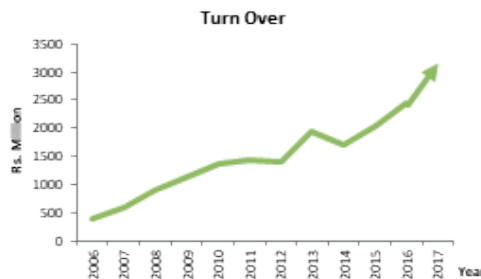
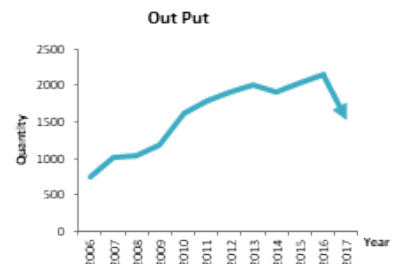
The State Pharmaceuticals Manufacturing Corporation recorded significant Net profit after tax of Rs.223 million in the year 2017..

Production Output

The total production out put is 1523 million units tablets/capsules in the year 2017.

Turnover

Total turnover for the year 2017 amounted to Rs.3,174 million which is the highest turnover since its inception. Out of the total sales , 78.25% were to Medical Supplies Division (MSD) of the Ministry of Health.



In addition to this main channel, the sales through the state pharmaceutical corporation (SPC) was 0.34% and the balance sales to Private Pharmacies registered with us.

I am happy to note the SPMC has been well managed with its own resources to earn profits without any assistance of the treasury. In fact SPMC has paid Rs.45 million to the Treasury as contribution during the year 2017, fulfilling our responsibility as a public corporation.

DEVELOPMENT WORK

Factory Development

SPMC manufactured 1523 million tablets & capsules in 2017. Additional pneumatic powder transfer systems was introduced to reduce workload in production department.

Expansion Project

SPMC has obtained a funding line from JICA for the expansion of the factory which is expected to be completed by 2018. The expected output would increase to 3200 million unit tablets & capsules per annum with the proposed expansion.

Under this expansion programme, SPMC also plans to purchase new machines, refurbish the existing buildings and construct a building for storing raw materials and finished goods.

Research and Formulation Development

During the year 2017, six products were given formulation approval and three products were given manufacturing licenses. In addition to that, documents of Diltiazem Tablets BP 30.mg were submitted for product registration.

HUMANRESOURCES DEVELOPMENT & WELFARE

SPMC had 279 employees as at 31.12.2017 including 5 Trainees who are engaged on the job training under the guidance of Senior Management of the SPMC for efficient and smooth operation of two shifts. 113 employees were trained through several programmes conducted by local Institutions and 15 employees were trained abroad.

SPMC continued to provide the basic welfare facilities requested by the employees. They were also encouraged to participate in social

and welfare events such as Annual Trip/ Get together, Sinhala New Year Celebrations and Sports Festival etc.

STRATEGY AND PROSPECTS

Our main aim is to provide an uninterrupted supply of pharmaceuticals required by the Medical Supplies Division (MSD) of Ministry of Health, State Pharmaceutical Corporations (SPC) Pharmacies and medical Professionals. To facilitate this process we have already expanded the building capacity for production, storing area and administration unit. The modernization of laboratory area will ensure supplying of high quality drugs at affordable prices to the needy people in Sri Lanka.

This expansion will support us to improve the production, increase sales revenue, widen the products range and create new employment opportunities, enhance technical know-how and create a corporate image of SPMC.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I thank His Excellency the President of the Democratic Socialist Republic of Sri Lanka Honorable Maithripala Sirisena, for his continued dedication to the progress of the Pharmaceutical Industry in Sri Lanka. I also extend my appreciation to the Hon. Minister of Health, Nutrition & Indigenous Medicine Dr. Rajitha Senarathne for his valuable guidance and support. We also value the guidance provided by the Secretary of the Ministry of Health Mr. Anura Jayawickrama and other officials of the Ministry of Health. We also appreciate the contribution made by the officials of the various Departments of General Treasury.

It is a pleasure to note with gratitude that we had an excellent relationship with the State Pharmaceuticals Corporation (SPC), Medical Supplies Division (MSD), Private Pharmacies and medical professionals who contributed enormously to the success of our Corporation.

The commitment of the Managing Director, General Manager, Deputy General Managers, Managers, Executive Staff and all levels of employees of the SPMC in achieving positive

results during the year 2017 is greatly appreciated.

Finally, I must thank the Board of Directors for their valuable contribution and guidance in steering the corporation towards success.

Dr. S.G.Samarasundera
Chairman

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

28th February 2018

DIRECTORS

Dr. Sayuru Samarasundera

– Chairman

Dr. Sayuru Samarasundera is a Medical Doctor (Medical Academy of Latvia/Riga Stradins University) and having Doctorate (Ph.D) in Institute of Innovative Technology, University of Moscow as well as serves the position in Chairman to the State Pharmaceuticals Manufacturing Corporation of Sri Lanka.

He has served as the Chairman to the National Aquatic Resources Research & Development Agency, Director to the Project Implementation Unit of Ministry of Fisheries.

Also he is a member of the Governing Board of the National Maritime University, Member of the Board of National Aqua Culture Development Authority and he was a Sri Lankan Representative for the International Hydrography Organization for the period of 2012 to 2015.

P. Suntharalingum

– Managing Director

Mr. P. Suntharalingam was appointed to the Board as Managing Director on 26th January 2015.

Mr. Suntharalingam had been a senior banker with over 42 years of diversified experience in the banking industry backed by 36 years with Bank of Ceylon and 6 years with Union Bank. He possesses an extensive experience and expertise in the field of banking, strategic planning, business process re-engineering, sales management, channel management, project management, corporate governance, compliance and Management Information Systems(MIS).

During his extensive career, he has held key positions such as Assistant Vice President of Union Bank, Head of Compliance of Union Bank, Head of the Management Information Systems(MIS) of Bank of Ceylon and various executive positions in the retail & domestic banking business sectors of Bank of Ceylon and Union Bank.

After leaving the banking industry, he served as the Project Co-ordinator/Chairman of the Project Monitoring Unit of the Ministry of Fisheries and Aquatic Resources Development for 4 Years.

Mr. Suntharalingam had successfully completed a programme on computer based Information system conducted by the Indian institute 1991 and the programme on Accounting & Finance conducted by the National University of Singapore in 2000.

Dr. Susie Perera

- Director

Dr. Susie Perera currently worked as the Director Organization Development in the Ministry of Health.

She is a graduate of the Faculty of Medicine, University of Colombo and she holds a Master's Degree and a Doctorate Degree in Community Medicine.

She is a member of the Board of Study in Community Medicine at the Post Graduate Institute of Medicine in Colombo. She is a past President of the College of Community Physicians.

She has contributed in primary healthcare programme, development in migration health policy for Sri Lanka, Development in national policy on chronic non communicable diseases and she is a Honorary Fellow of the College of General Practitioners and the College of Community Physicians of Sri Lanka.

Dr. D. Venkatheshwaran**– Director**

Dr. D. Venkatheshwaran currently attached to the Vahi Constructions (Pvt) Ltd., as a Managing Director.

He is having 21 years' experience in Marketing area.

He holds B.com Degree and Honorary Doctorate.

Shafeec Rajabdeen**- Director**

Mr. Mohamed Shafeec Mohamed Rajabdeen presently holds the position of Vice Chairman in National Water Supply and Drainage Board.

He has followed higher education at Indian Institute of Technology, Chennai (IIT Foundry Engineering and followed Internship at Messes – Beehive Foundry, Madras in 1975 – Foundry Engineering.

He is the Chairman of Rajabdeen and Sons and he is elected as member of Colombo Municipal Council (2001-2004), elected to Western Provincial Council (2004 -2005) and Elected as Member of Parliament (2008-2010).

Miyuru Bhashitha Liyanage**– Director**

Mr. Miyuru Bhashitha Liyanage currently serves as the Parliament Secretary to the His Excellency President Maithreepala Sirisena, Chairman & Managing Director of Sarasa Group of Companies, Consultant in Journalism and Consultant in Police and Public Relations (External).

He holds special degree in Mass Communication, Higher Diploma of Fine Arts in Bellwood, Diploma in Business Management at NIBM, Diploma in Writership & Mass Communication at Sri Jayawardenapura University of Sri Lanka, Diploma in Journalism in Colombo University (2012), Certificate course in Writership and Mass Communication at Open University of Sri Lanka and at present he is following a post Graduate Diploma in Journalism & Masters in Mass Media Studies at Colombo University.

He worked as Journalist and Programme Presenter at Television and Radio.

K. D. S. Ruwanchandra - Director

Mr. K. D. S. Ruwanchandra serves as the Secretary to the Ministry of National Policies & Economic Affairs Presently.

He holds Masters on Public Policy(National University of Singapore), BSc. degree on Public Administration (University of Sri Jayawardenapura) and Higher National Diploma in Accountancy and he is an Associate member of Chartered Institute of Management Accountants. (ACMA)

He has served as Director to the Department of National Budget and Department of Sports Development. and he was the Additional Secretary to the Ministry of National Policies and Economic Affairs, Ministry of Law & Order, Ministry of Defence and Urban Development, Ministry of Public Management Reforms and served as Minister Counsellor to the Sri Lanka Embassy in Beijing and Director/Counsellor to the Ministry of External Affairs. He was a consultant to the Sri Lanka Institute of Development Administration(SLIDA) during his career.

DIRECTORS' REPORT

The Directors have pleasure in forwarding their Report and Audited Accounts for the year ended 31st December 2017. The Accounts are set out on pages 19-44.

PRINCIPAL ACTIVITIES

The principal activities of the Corporation are,

- Manufacturing, processing, stocking, packing and re packing of drugs.
- Provision of technical assistance for the manufacture and processing of drugs.
- Pharmacological and pharmaceutical research and the standardization of drugs.
- Marketing of drugs.

There were no significant changes in the nature of the activities of the Corporation during the year.

REVIEW OF BUSINESS

The state of affairs of the Corporation as at 31st December 2017 is set out in the balance sheet on page 21.

An assessment of the corporation during the financial year is given in the Chairman's Review on pages 7 & 8.

TURNOVER & RESULTS

The Turnover, results for the year and the changes in the equity are set out in the income statement on page 22 and the statement of changes in equity on page 23 respectively.

FUTURE DEVELOPMENT

Future developments in business are given in the Chairman's Review on pages 7 & 8.

DONATIONS

During the year, no donations have been made by the Corporation.

PROPERTY, PLANT & EQUIPMENT

The movements in property, plant & equipment during the year are set out in Note 1 in the financial statement on page 32.

DIVIDEND / CONTRIBUTION

The Directors recommended and made a payment of Rs. 45,000,000.00 by way of dividends to the consolidated Fund of the General Treasury.

RESERVES

Total Reserves of the Corporation and their composition have been given in the statement of changes in equity on page 23 in the financial statements.

DIRECTORS

The Board consists of six Directors, whom are appointed by the Minister of Health & Indigenous Medicine. One of the Directors is the Finance Ministry representative and the other is representing Ministry of Health & Indigenous Medicine. Directors of the Board were appointed from the month of May 2015. During the period, the Board of Directors had held eight meetings. The Chairman and the Board of Directors take the responsibility for the affairs of the Corporation for the related period.

Dr. S. G. Samarasundera	- Chairman
P. Suntharalingam	- Managing Director
Miyuru Bashitha Liyanage	- Director
Dr. D. Wenkatheshwaran	- Director
Shafeek Rajabdeen	- Director
Dr. Susi Perera	- Director - Health Ministry Representative
K.D.S. Ruwanchandra	- Director - Finance Ministry Representative

ACCOUNTING POLICIES

The principal accounting policies of the Corporation are set out on pages 25 to 31.

ENVIRONMENTAL PROTECTION

It is the responsibility of the corporation to operate in a manner that will not have a detrimental effect on the environment and to provide products of the highest quality that have a beneficial effect for our customers and the communities within which we operate.

STATUTORY PAYMENTS

All statutory payments to the government and the employees have been made at the balance sheet date.

EVENTS AFTER BALANCE SHEET DATE

No events have occurred since the balance sheet date, which would require adjustments to, or disclosure in, the financial statements.

GOING CONCERN

The Financial Statements are prepared based on the going concern concept. The Board of Directors satisfied that the Corporation has adequate resources to continue its operations in the foreseeable future.

APPOINTMENT OF AUDITORS

In terms of the provision of Finance Act 1971, the Auditor General is the Auditor of the Corporation and had carried out his annual audit of the financial activities of the Corporation for the year ended 31st December 2017.

Dr. S. G. Samarasundera

Chairman

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

REPORT OF THE AUDIT COMMITTEE - 2017

The Audit Committee constitutes in accordance with the provisions of the Public Enterprise Circular No. PED 55 of 14.12.2010.

As per the above circular, 'The Audit Committee should assist the Board in the task of overseeing to ensure that financial reporting is done in compliance with relevant Sri Lanka Accounting Standards and other applicable legal requirements, to ensure that all relevant rules and regulations and circulars issued by the government are complied with continuously reviewing and monitoring making recommendations to the Board on non-compliance, review the internal /external audit reports, management letters and recommendations of COPE, help the Board to take remedial actions, to introduce and implement adequate internal control systems'.

The Audit Committee comprised four non - Executive Directors of the Corporation and chaired by the Director representing the Treasury during the year.

Auditor General's Department representative participated as an observer as per the above Circular and Chief Internal Auditor of the Ministry of Health and Indigenous Medicine also participated as an observer as appointed by the Ministry of Health and Indigenous Medicine.

During the financial year 2017, four (04) Audit Committee Meetings were held.

In the year 2017, the Committee

- Considered the Internal Audit Reports, covering the nature of the issues, responses by the heads of departments and corrective actions that were taken by the respective management to overcome the deficiencies highlighted.
- Reviewed & made suitable recommendations about the adequacy of several internal control systems in the areas including stores & inventories, fixed assets, procurement of fixed assets, prices for selected products, payments in order to ensure the smooth operations of the Corporation.
- Reviewed the follow up actions taken by the respective heads of the departments on the recommendations of the Committee.
- Reviewed & made recommendations about the procedure for the disposal/destruction of damaged & unused assets including raw materials, packing materials, work in progress, finished goods, raw materials & work in progress of Formulation Department, spare parts & fixed Assets.
- Reviewed the adequacy of financial reporting and overall internal control systems.
- Considered the comments presented by the heads of the departments of the Corporation on the matters raised by the Auditor General.
- Considered selection of a suitable consultant on Information Technology (IT) to study and submit a report to analyse the current Enterprise Resource Planning system (ERP) and paid attention for obtaining a new ERP System and made suitable recommendations.
- Paid due attention for monitoring of information generated by the existing ERP.
- Reviewed the investigation report carried out by Internal Audit Department & made suitable recommendations.

The Audit Committee is of the opinion that terms of reference of the Committee covered the subjects in all material aspects.

Audit Committee Members

K. D. S. Ruwanchandra	- Chairperson	- Director-SPMC /Treasury Director
Miyuru Bhashitha Liyanage	- Member	- Director-SPMC
Shafeek Rajabdeen	- Member	- Director-SPMC
Dr.Susie Perera	- Member	- Director-SPMC

K. D. S. Ruwanchandra
Chairman – Audit Committee

04.10.2018

CORPORATE GOVERNANCE REPORT

Corporate Governance is the system by which companies are directed & controlled by the Management in the best interest of the stakeholders (investors, employees, suppliers, consumers, government & public) ensuring greater transparency, better and timely Financial reporting.

Board of Directors is responsible for the Governance of the Corporation.

DIRECTORS

The Board comprises professional and experienced persons from Management, Pharmacology, Medicine, Marketing, Financial and Administration sectors.

The Board of Directors consists of two Executive Directors who are the Chairman, MD and five non-Executive Directors.

The Board meets monthly intervals and in addition special meetings are also arranged as required, unless otherwise in the event of parliament has been dissolved or Board has not been appointed by Hon. Minister.

During the period under review, eight board meetings were held.

MANAGEMENT COMMITTEE

Corporate Management Committee is headed by Chairman of the Corporation. The Committee comprises Heads and Deputy Heads of the Departments of the Corporation.

Management Committee makes decisions on day to day operations of the Corporation, implements the policy decision and strategic objectives as well as makes recommendations as necessary for Board of Directors to take policy decisions.

Management Committee meets at monthly intervals.

AUDIT COMMITTEE

Audit Committee is constituted in accordance with the 'Public Enterprises Guideline for Good Governance' and Public Finance Circulars.

The Audit Committee is appointed by the Board and comprises four non – executive Directors of the Corporation. Director who represents Ministry of Finance chairs the Committee.

The Audit Committee independently examines and evaluates the activities of the Corporation. Internal Audit function carried out in accordance with "Internal Audit Plan" is approved by the Audit Committee with the notification of the Auditor General.

During the period under review, four Audit Committee meetings were held.

Audit Committee Report is set out in page 14.

INVESTOR'S RELATIONSHIP & PUBLIC ACCOUNTABILITY

Public Enterprises are established, owned and operated by the Government on behalf of the Public.

Therefore Board of Directors and Managers of the Corporation are responsible for managing the enterprises to the Ministry of Health as line Ministry and the General Treasury of the Finance Ministry.

Annual Report, Annual Accounts, Annual Budgets, Quarterly Performance Reports are forwarded to the same authorities, fulfilling the above responsibility.

Throughout the democratic world, Parliament, consisting of elected representatives of the people, has been accepted as the ultimate authority on public Finance.

Annual Report which embodies the performance of the Corporation, Financial Statements, and Auditor General's Report is tabled in parliament for review by the Members of Parliament.

Being a Public Enterprise, the Corporation is also accountable for the "Committee for Public Enterprises" (COPE) of Parliament.

REMUNERATION POLICY

Corporation's remuneration policy is set out on the recommendations of the Management Services Department of the General Treasury.

Director's allowances and perquisites are decided and paid in accordance with the applicable circulars in relation to allowances and perquisites of directors of Corporations issued by the General Treasury.

Employees' salaries are paid on salary scales prepared by Corporation, based on Public Administration salary scales with the approval of the Department of Management Services of the General Treasury.

A performance incentive scheme is in place to link rewards directly to the performance.

INTERNAL CONTROL

The Board has responsibility to ensure that Corporation maintains a system of Internal Control, which is designed to provide reasonable assurance that all transaction entered into by the Corporation are properly authorized, recorded & reported.

Functional Organization Structure is in operation. Departments are designed with defined activities such as Production, Quality Control, Maintenance, Finance, Planning, and Formulation Research & Development & Marketing.

Heads of each Department directly report to the General Manager who is the chief operating officer of the Corporation.

General Manager reports to the Managing Director, Chairman & the Board of Directors.

Internal Control system is augmented by the internal Audit function. The Internal Auditor reports direct to the Chairman of the Corporation and Audit Committee, thereby strengthening the independence of the Internal Auditor.

Competitive Tender procedure for procurement process is followed by the corporation in order to maintain the transparency of the transactions and thereby giving equal opportunities to interested parties.

The Annual Budget which includes the capital budget are approved by the Board and forwarded to Ministries of Health & Indigenous Medicine and Finance.

PRODUCTS MANUFACTURED BY SPMC

Item Wise Product Quantity in Million Units of Tablets/Capsules

Products	Quantity In Mn. Units	Products	Quantity In Mn. Units
Aluminium Hydro.Tab. BP 500mg	0.912	Gliclazide Tablets BP 40mg	114.000
Amoxicillin Tab. USP 125mg	8.837	Gliclazide Tablets BP 80mg	63.000
Amoxycillin Cap. BP 250mg	118.758	Losartan Potassium Tablets 50mg	9.600
Amoxycillin Cap. BP 500mg	22.750	Mebendazole Tab. USP 500mg	0.640
Ascorbic Acid Tab. BP 100mg	29.700	Metformin Tab. BP 500mg Products	22.750
Atorvastatin Tablets BP 10mg	18.000	Paracetamol Tab. BP 500mg	259.200
Atenolol Tablets BP 50mg	1.000	Phenoxymethylpenicillin Tab. BP 250mg	28.716
Benzhexol Tab. BP 2mg	66.000	Phenoxymethylpenicillin Tab. BP 125mg	0.900
Carbamazepine Tab. BP 200mg	26.000	Prednisolone Tab. BP 5mg	215.600
Cimetidine Tab. BP 200mg	7.280	Propranolol Tab. BP 40mg	18.000
Clarithromycin Tab. 250mg	6.400	Salbutamol Tab. BP 2mg	151.200
Cloxacillin Cap. BP 250mg	58.100	Salbutamol Tab. BP 4mg	12.000
Cloxacillin Cap. BP 500mg	42.700	Spiranolactone Tab. USP 25mg	6.900
Ciprofloxacin Tablets USP 500mg	4.800	Theophylline ER Tablets 125mg	30.800
Co-Trimoxazole Tab. BP 480mg (Adult)	0.750	Trifluoperazine Tablets BP 5mg	4.500
Diclofenac Sodium Tab.USP 50mg	22.100	Tolbutamide Tab. 500.mg	3.780
Diltiazem HCL Tablets 60mg	24.750	Verapamil Tab. BP 40mg.	28.050
Diethylcarbamazepine Tablets BP 50mg	13.500	Vitamin B Tab. CHF	50.400
Famotidine Tablets USP 20mg	8.100	Vitamin B Tab. Strong	8.000
Frusemide Tab. BP 40mg	28.500		

PRODUCTS TO BE LAUNCHED - 2018

Cetirizine Tablets BP 10.mg	Atorvastatin Tablets BP 20.mg
Clopidogrel Bisulfate Tablets USP 75.mg	Diltiazem Tablets BP 30.mg
Ciprofloxacin Tablets USP 250.mg	Cefelexine Capsules BP 250.mg
Prednisolone Tablets BP 1.mg	Levethyroxine Tablets BP 50.µg
Folic Acid Tablets BP 400.µg	

SATATMENT OF DIRECTOR'S RESPONSIBILITIES

The responsibilities of directors, in relation to the financial statements, differ from responsibilities of the Auditors, which are set out in the Report of the Auditor General on pages 45 - 62.

Under the Financial Act No.38 of 1971, a public corporation shall cause proper accounts of the income and expenditure, assets and liabilities and of all other transactions of the corporation to be kept. A Public corporation shall prepare an annual statement of accounts and statistics relating to the activities of the corporation in such form and containing such particulars.

The Board of Directors has a statutory responsibility in the stewardship of the enterprise on behalf of the Government and stakeholders, they are responsible for ensuring that the corporation keep sufficient accounting records to disclose with reasonable accuracy the financial position of the corporation and for ensuring that the financial statements have been prepared and presented in accordance with Sri Lanka Accounting Standards and provide the information required by the Finance Act No.38 of 1971 and the directors continue to adopt the going concern basis in preparing the financial statements.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the corporation and in this regard to give proper consideration to the establishment of appropriate internal control systems comprising of internal audit, internal checks and financial reviews and detect fraud and irregularities.

Under the financial Act No. 38 of 1971, the Auditor General has examined the financial statements made available by the Board of Directors together with all the financial records and related data and expressed their opinions which appears as reported on page 45 - 62 of this report.

Financial Statements

for the year ended 31.12.2017



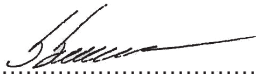
STATEMENT OF FINANCIAL POSITION

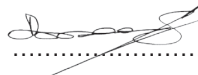
As at 31.12.2017

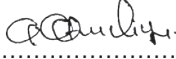
(All amounts in Sri Lankan Rupees)

	Note	As at 31.12.2017	As at 31.12.2016
ASSETS			
Non Current Assets			
Property, Plant and Equipment	01	802,775,316	798,657,066
Intangible Assets	02	1,720,952	1,128,780
Other Non Current Assets	05	1,302,233	438,094
Prepaid Lease	04	3,380,221	3,429,209
Work in Progress		85,299,340	21,586,468
Current Assets			
Inventories	06	799,112,524	751,873,001
Trade and Other Receivables	07	434,523,866	139,049,949
Prepayments	08	17,520,999	8,735,569
Other Financial Assets	09	926,461,067	1,175,754,426
Cash In Hand & At Bank	10	1,374,564	1,631,481
		2,178,993,021	2,077,044,426
Total Assets		3,073,471,082	2,902,284,042
Equity And Liabilities			
Authorised Capital		850,000,000	850,000,000
Stated Capital	11	690,079,000	690,079,000
Retained Earnings		2,051,566,519	1,869,310,352
Total Equity		2,741,645,519	2,559,389,352
Non Current Liabilities			
Employee Benefit Liabilities		41,213,529	40,862,404
Deferred Tax Liability	12	135,323,858	133,251,496
		176,537,387	174,113,900
Current Liabilities			
Trade and Other Payables	13	112,291,372	96,565,523
Tax Payable		42,996,805	72,215,267
		155,288,177	168,780,790
Total Equity and Liabilities		3,073,471,082	2,902,284,042

The Accounting Policies on Pages 25 to 31 form an integral part of these Financial Statements. The Board of Directors are responsible for the preparation and presentation of these Financial Statements. These Financial Statements are presented to Auditor General's Department Board of Directors approval and signed on their behalf.

Chairman : 

Managing Director : 

DGM - Finance : 

Date : 28-02-2018

STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31st December 2017

(All amounts in Sri Lankan Rupees)

	Note	For the year 2017	For the year 2016
Revenue	14	3,174,612,664	2,434,508,479
Cost of Sales	15	(2,666,683,665)	(1,888,256,150)
Gross Profit		507,928,998	546,252,329
Other Operating Income	16	20,988,536	26,190,482
Administrative Expenses	17	(204,579,086)	(165,788,553)
Selling & Distribution Expenses	18	(67,630,402)	(48,380,262)
Other Operating Expenses	19	(11,926,527)	(4,497,428)
Operating Profit		244,781,520	353,776,567
Finance Cost	20	(406,092)	(240,959)
Finance Income	21	77,607,094	87,629,279
Profit Before Tax		321,982,521	441,164,887
Tax Expenses	22	(98,074,582)	(144,518,173)
Profit for the Year		223,907,939	296,646,714

Statement of Comprehensive Income	For the year 2017	For the year 2016
Profit for the Year	223,907,939	296,646,714
(-) Experience (Gain) /Loss	1,226,459	4,817,184
(Gain) / Loss Due to Changes in Assumptions	2,121,769	24,048,388
Income Tax on Other Comprehensive Income	-	-
Other Comprehensive Income for the Year, Net of Tax	3,348,228	28,865,572
Total Comprehensive Income for the Year, Net of Tax	227,256,167	325,512,286

STATEMENT OF CHANGES IN EQUITY

For the Year ended 31st December 2017

(All amounts in Sri Lankan Rupees)

	Stated Capital	Profit&Loss	Total
Balance as at 01.01.2016	690,079,000	1,608,798,066	2,298,877,066
Profit for the Year	-	296,646,714	296,646,714
Other Comprehensive Income	-	28,865,572	28,865,572
Total Comprehensive Income	-	325,512,286	325,512,286
Contribution to Treasury	-	(65,000,000)	(65,000,000)
Balance as at 31.12.2016	690,079,000	1,869,310,352	2,559,389,352
Balance as at 01.01.2017	690,079,000	1,869,310,352	2,559,389,352
Profit for the Year	-	223,907,939	223,907,939
Other Comprehensive Income	-	3,348,228	3,348,228
Total Comprehensive Income	-	227,256,167	227,256,167
Contribution to Treasury	-	(45,000,000)	(45,000,000)
Balance as at 31.12.2017	690,079,000	2,051,566,519	2,741,645,519

STATEMENT OF CASH FLOW

For the Year ended 31.12.2017

(All amounts in Sri Lankan Rupees)

	For the year 2017	For the year 2016
Cash Flows from Operating Activities		
Net Profit/(Loss) before taxation & extraordinary items	321,982,521	441,164,887
Adjustments for :		
Depreciation on Fixed Assets	105,693,713	110,886,391
Current Service Cost	2,655,342	5,028,968
Employee Interest Cost	3,881,928	5,446,805
Profit / Loss on Disposal	-	(4,909,777)
Cost of Damaged & Unused	324,902	1,632,478
Claim from Bank Gurantee - DALAS	-	(7,525,587)
Unpaid Bid Bonds more than two years	-	(4,473,719)
Claimed Late Charges	(12,971,037)	-
Unclaimed Retentions	(4,952,389)	(4,187,151)
Interest Income	(73,534,273)	(85,783,178)
Operating Profit before Working Capital Changes	343,080,706	457,280,117
Changes in items of Working Capital		
(Increase) / Decrease in Inventories	(47,239,523)	20,989,038
(Increase) / Decrease in Debtors & Receivables	(295,473,917)	(17,871,154)
(Increase) / Decrease in Deposits & Prepayments	(8,785,430)	5,192,183
Increase / (Decrease) in Liabilities	33,649,275	2,960,033
Cash generated from operations	25,231,111	468,550,217
Gratuity paid	(2,837,917)	(1,267,855)
Tax paid	(125,220,683)	(184,182,270)
Net cash from operating activities	(102,827,489)	283,100,093
Cash Flows from Investing Activities		
Short term Investments (Note A)	264,882,293	(143,596,270)
Acquisition of Fixed Assets	(174,392,920)	(161,545,630)
Proceeds from the sale of Disposal of Property	-	5,018,900
Interest received	57,945,340	81,013,817
Increasing Other Non Current Assets	(864,140)	(67,033)
Net cash used in investing activities	147,570,572	(219,176,215)
Cash Flows from Financing Activities		
Treasury Contribution	(45,000,000)	(65,000,000)
Net cash used in Financing activities	(45,000,000)	(65,000,000)
Net Increase / (Decrease) in Cash & Cash Equivalents	(256,917)	(1,076,122)
Cash & Cash Equivalents at the beginning of the period	1,631,481	2,707,603
Cash & Cash Equivalents at the end of the period (Note B)	1,374,564	1,631,481

Note A - Cash flow from investing activities

Cash Inflows during the period	5,945,552,908	7,709,395,948
Cash Outflows during the period	(6,210,435,201)	(7,565,799,678)
Net Cash Flow	(264,882,293)	143,596,270

Note B

Cash & Cash Equivalents

Bank of Ceylon - Ratmalana Branch	41,084	54,043
Bank of Ceylon - Corporate Branch	1,228,266	971,147
Peoples Bank - Ratmalana Branch	40,698	249,278
Peoples Bank - Corporate Branch	11,634	309,816
Cash Balance	36,367	28,895
Petty Cash	16,516	18,302
	1,374,564	1,631,481

CORPORATE INFORMATION & SIGNIFICANT ACCOUNTING POLICIES

1. CORPORATE INFORMATION

GENERAL

State Pharmaceuticals Manufacturing Corporation is incorporated under Industrial Corporation Act No. 49 of 1957. It is a Government Corporation located at No. 11, Sir John Kotelawala Mawatha, Ratmalana.

The Corporation prepares Financial Statements for the year ended 31st December 2017 and these Financial Statements were authorized by the Board of Directors.

PRINCIPAL ACTIVITIES

The main functions are,

- a. Manufacturing, processing, stocking, packing and re packing of drugs.
- b. Provision of technical assistance for the manufacture and processing of drugs.
- c. Pharmacological and pharmaceutical research and the standardization of drugs.
- d. Marketing of drugs.

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The Financial Statements have been prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka.

2.2 BASIS OF MEASUREMENT

The Financial Statements have been prepared on the historical cost basis. The financial statements of the Corporation are presented in Sri Lankan Rupees.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies set out below are consistent with those used in the previous year other than allocation between overheads 5.1.5

3.1.1 PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Corporation derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred.

3.1.2 DEPRECIATION

Depreciation is provided according to LKAS 16, depreciation of non-current assets commenced from the date it is made use of, whereas depreciation discontinued from the date an asset decided to be sold in accordance with SLFRS 05, on straight line basis. Estimated useful life Property, Plant & Equipment are as follows.

Leasehold Land	Over the period of Lease (99 years)
Landscaping Expenses	Over the period of Lease (99 years)
Buildings	30 to 4 years
Vehicle Shed	4 years
Plant & Machinery	25 to 1 year
Motor Vehicles	15 to 3 years
Motor Bicycle	15 to 4 years
Bicycle & Carts	7 years
Equipment	30 to 2 years
Computer Accessories	10 to 1 year
Computer Software	6 to 1 year
Furniture & Fittings	20 to 3 years
Tools	15 to 1 year
Library Books	5 years

3.1.3 INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

3.1.4 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The carry value of property, plant and equipment is reviewed for impairment either annually or when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount the assets are written down to their recoverable amount. Impairment losses are recognized in the income statement unless it reverses a previous revaluation surplus for the same asset.

3.1.5 IMPAIRMENT OF NON FINANCIAL ASSETS

The Corporation assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

3.1.6 TAXATION

3.1.6.1 CURRENT TAXATION

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Taxation Authorities in respect of the current as well as prior years. The tax rate and tax laws used to compute the amounts are those that are enacted or substantially enacted by date of Statement of Financial position.

Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provision of the Inland Revenue Act No: 38 of 2000 and the Amendments thereto, the rates specified in the act. Provision for the current year taxation made according to the accounting profit subject to the rate specified by act.

3.1.6.2 DEFERRED TAXATION

In respect of each type of temporary differences recognized in the Statement of Financial Position, we considered the Deferred Tax Liabilities and Assets. In our Financial Statements mainly we recognized a Deferred Tax Liability for Book & Tax written down value of Fixed Assets & Deferred Tax Asset for Provision for Retiring Gratuity. Deferred Tax Assets & Liabilities are measured at the Income Tax Rate.

3.2 INVENTORIES

Inventories are recognized at cost and net realizable value which ever is lower after making due allowance for obsolete and slow moving items which are valued at 'First In First Out' basis.

3.2.1 MEASUREMENT OF INVENTORIES**COST OF INVENTORIES****RAW MATERIALS**

Cost of purchases together with any incidental expenses.

WORK IN PROGRESS

Raw material cost and variable manufacturing expenses in full.

FINISHED GOODS

Raw material cost and variable manufacturing expenses in full.

OTHER STOCKS

Cost is arrived at weighted average basis

3.2.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. The Corporation has not provided any impairment for trade debtors as there is no long outstanding as at 31-12-2017.

3.2.3 CASH AND CASH EQUIVALANTS

Cash and cash equivalents comprise cash in hand and bank balance and short term investment.

3.2.4 RELATED PARTY TRANSACTIONS**3.2.4.1 COMPENSATION OF BOARD OF DIRECTORS****TRANSACTIONS WITH STATE AND STATE CONTROLLED ENTITIES**

In the normal course of its operations, the Corporation enters into transactions with related parties. Related parties include the Government of Sri Lanka (State: as the ultimate owner of the Corporation), various government departments, and State controlled entities. Particulars of transactions, and arrangements entered into by the Corporation with the State and State controlled entities which are individually significant and for other transactions that are collectively, but not individually significant are as follows:

NATURE OF TRANSACTION TRANSACTION	2017	2016
Investment in Sri Lanka Government Securities Held by Corporation	926,461,067	1,175,754,426
Paid Surplus to Government during the year	45,000,000	65,000,000
Sales to DHS, SPC & Distributors	3174,612,664	2,434,508,479
OUTSTANDING BALANCE		
Receivable from SPC	5,421,788	28,464,567
Receivable from DHS	316,077,817	6,860,212

3.2.5 CAPITAL

There is no change in the Authorized Capital during the year ended 31st December 2017.

3.2.6 EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

All the material events after the date of Statement of Financial Position have been considered and appropriate adjustment and disclosures have been made in to the financial statement, where necessary.

3.2.7 RESEARCH COST

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

4. LIABILITIES AND PROVISIONS

4.1 RETIREMENT BENEFIT OBLIGATION

4.1.1 DEFINED BENEFIT PLAN – RETIREMENT GRATUITY

The Corporation is liable to pay Gratuity in terms of the Payment of Gratuity Act No.12 of 1983. The liability for gratuity to an employee arises only on completion of five years of continued service with the Corporation. In order to meet this liability, a provision is carried forward in the Statement of Financial Position. The resulting difference between the brought forward provision at the beginning of a year and the carried forward provision at the end of the year is dealt with in the Income Statement.

Corporation measures the present value of the promised retirement benefit of gratuity with the advice of the Actuary for the year 2017.

The principal assumptions used in the calculations are as follows.

	2017	2016
Expected Annual Average Salary Increment Rate	4%	4%
Discount Rate / Interest Rate	10.40%	9.50%
Staff Turnover Factor	2.67%	2.67%

The liability is not externally funded. The item is grouped under Non-Current Liabilities in the Statement of Financial Position.

4.1.2 DEFINED CONTRIBUTION PLANS – EMPLOYEES PROVIDENT FUND & EMPLOYEES TRUST FUND

All employees who are eligible for Employees' Provident Fund Contribution and Employees' Trust Fund Contribution is covered by relevant contribution funds in line with respective regulation.

Obligations for contributions to provident Fund and Trust Fund covering the employees are recognized as an expense in the Income Statement.

4.1.3 TRADE AND OTHER PAYABLES

Trade and other payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. The corporation has not provided any subsequent measured cost as there is material effect as at 31-12-2017.

4.1.4 PROVISION

GENERAL

Provisions are recognized when the Corporation has a present obligation (legal or Constrictive) as a result of a past event, it is probable that an outflow of resource embodying economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the corporation expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

5. INCOME STATEMENT

For the purpose of presentation of the Income Statement, the function of expenses method is adopted, as it represents fairly the elements of corporation performance.

5.1.1 TURNOVER

The State Pharmaceuticals Manufacturing Corporation turnover comprises sales to Department of Health Service, Distributors and State pharmaceuticals Corporation.

5.1.2 REVENUE RECOGNITION

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also met before revenue is recognized.

SALE OF GOODS

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

5.1.3 EXPENSES

All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year. Repair and renewals are charged to profit and loss in the year in which the expenditure is incurred.

5.1.4 FINANCING EXPENSES

Finance expenses comprise of overdraft interest, letter of credit opening expenses & credit facility agreement charges.

5.1.5 ALLOCATION BETWEEN OVERHEADS

In the Financial Statements, Overheads allocation method as follows.

EXPENSES

- (a) Rates & Taxes, Electricity, Water Charges, Security Charges, Insurance, Maintenance of Equipment, Maintenance – General, Maintenance – Building, Depreciation.
- (b) Insurance of Health Insurance Scheme, Staff Welfare, Uniform & Shoes, Transport Charges
- (c) Directors Fees, Other Incentives, Repairs & Maintenance of Motor Vehicles, Fuel & Lubricants for Vehicles, Postage & Fax, Telephone Charges, Security Charges, License Fee-Vehicles & Drugs, Printing & Stationery, Office Expenses, Audit Fee, Rent Charges, Advertisements, Trade Subs.& Periodicals, Legal & Inquiry Expenses, Professional Charges, Entertainment, Annual Subscription, Annual Conference & Meetings, Stamp Fee, Stationery Adj.-Stock take.
- (d) Staff Benefits & Other Expenses

ALLOCATION METHOD

- (a) If the actual cost is directly related to the Production or Administration, apportioned on that basis. Other common actual cost is apportioned based on percentage 70% & 30% between Production & Administration.
- (b) Cost is apportioned based on actual number of employees in each section.
- (c) Actual cost method is used
- (d) Actual Cost method is used

6. FINANCIAL INSTRUMENTS – INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

6.1 FINANCIAL ASSETS

6.1.1 INITIAL RECOGNITION AND MEASUREMENT

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate and determine the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

The Corporation financial Assets include cash and short term Treasury bill investment, trade and other receivable, staff loans and other receivable.

6.1.2 SUBSEQUENT MEASUREMENT

The subsequent measurement of financial assets depends on their classification as follows

6.1.3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

6.1.4 LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance cost.

6.1.5 HELD – TO – MATURITY INVESTMENTS

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to- maturity when the Corporation has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized as finance cost in the income statement in finance cost. The Corporation did not have any held –to- maturity investments during the year ended 31 December 2017.

6.1.6 AVAILABLE – FOR – SALE FINANCIAL INVESTMENTS

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available for- sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognized in profit or loss.

The Corporation evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Corporation is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Corporation may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Corporation

has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial assets reclassified out of the available for sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the assets are subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement. The Corporation did not have any available for –sale financial investments during the year ended 31 December 2017.

6.1.7 DERECOGNITION

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when,

- i). The rights to receive cash flows from the asset have expired
- ii). The Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) The Corporation has transferred substantially all the risks and rewards of the asset, or
 - (b) The Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

6.1.8 IMPAIRMENT OF FINANCIAL ASSETS

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

6.1.9 FINANCIAL ASSETS CARRIED AT AMORTIZED COST

For financial assets carried at amortized cost, the Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The Corporation is performed specific impairment for each debtor categories.

NOTES THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31.12.2017

Note - 01
Property, Plant & Equipments - Depreciable Assets

Cost

2017

Cost

2016

Description	Cost As At 01.01.2017	Acquisitions During the Year	Disposals During the Year	Balance As at 31.12.2017	Damaged & Unused Adjustments (Note - 03)	Balance After Adj. of Damaged & Unused As At 31.12.2017
<i>Depreciable Assets</i>						
Land Scaping Expenses	6,113,388	-	-	6,113,388	-	6,113,388
Land	23,214,262	26,257,656	-	49,471,918	-	49,471,918
Buildings	395,490,614	66,169,293	-	461,659,907	(31,688,139)	430,000,000
Plant & Machinery	950,886,612	1,129,132	(93,800)	951,873,944	-	951,873,944
Motor Vehicles	89,021,800	-	-	89,021,800	-	89,021,800
Motor Bicycle	298,640	(0)	-	298,640	-	298,640
Equipment	141,168,379	9,067,400	-	150,235,779	(22,898,172)	127,337,607
Computer Accessories	12,853,261	6,250,795	-	19,104,056	(6,041)	13,063,015
Furniture & Fittings	26,584,254	676,098	-	27,260,352	(511,373)	26,748,979
Bicycle & Carts	31,987	0	-	31,987	-	31,987
Tools	7,840,355	(0)	-	7,840,355	(1,080,825)	6,759,530
<i>Fully Depreciated Assets</i>						
Library Book	2,499,042	-	-	2,499,042	-	2,499,042
Vehicle Parking Shed	1,170,063	-	-	1,170,063	-	1,170,063
Total Value of Assets	1,657,124,656	109,550,375	(93,800)	1,766,581,231	(56,788,918)	1,709,792,313

Description	Cost As At 01.01.2016	Acquisitions During the Year	Disposals During the Year	Balance As at 31.12.2016	Damaged & Unused Adjustments	Balance After Adj. of Damaged & Unused As At 31.12.2016
<i>Depreciable Assets</i>						
Land Scaping Expenses	6,113,388	-	-	6,113,388	-	6,113,388
Land	23,214,262	-	-	23,214,262	-	23,214,262
Buildings	386,762,540	8,728,074	-	395,490,614	(31,294,389)	364,200,000
Plant & Machinery	826,156,709	124,681,903	-	950,886,612	-	950,886,612
Motor Vehicles	85,771,800	5,950,000	-	91,721,800	-	91,721,800
Motor Bicycle	298,640	-	-	298,640	-	298,640
Equipment	136,965,700	4,213,730	-	141,168,379	(22,691,337)	118,477,043
Computer Accessories	9,789,553	3,063,708	-	12,853,261	(487,105)	12,366,156
Furniture & Fittings	25,082,488	1,501,765	-	26,584,254	(434,628)	26,149,626
Bicycle & Carts	31,987	-	-	31,987	-	31,987
Tools	7,840,355	-	-	7,840,355	(1,080,725)	6,759,630
<i>Fully Depreciated Assets</i>						
Library Book	2,499,042	-	-	2,499,042	-	2,499,042
Vehicle Parking Shed	1,170,063	-	-	1,170,063	-	1,170,063
Total Value of Assets	1,511,696,526	148,139,180	(2,711,050)	1,657,124,656	(55,988,183)	1,601,136,473

Depreciation

Description	Accumulated Dep. As at 01.01.2017	Depreciation For the Year	Acc. Dep. Related to Disposals	Balance As at 31.12.2017
<i>Depreciable Assets</i>				
Land Scaping Expenses	1,858,226	60,788	-	1,919,014
Land	-	-	-	-
Buildings	189,566,201	26,573,183	(71,845)	216,139,384
Plant & Machinery	428,731,194	65,103,005	-	493,834,080
Motor Vehicles	45,009,417	6,084,260	-	51,093,677
Motor Bicycle	218,980	52,993	-	271,972
Equipment	102,403,615	3,344,428	(146,195)	105,601,848
Computer Accessories	8,660,561	1,467,623	(20,937)	10,107,247
Furniture & Fittings	16,856,952	2,094,521	(29,328)	18,922,146
Bicycle & Carts	28,788	3,199	-	31,987
Tools	5,476,368	301,268	(100)	5,777,536
<i>Fully Depreciated Assets</i>				
Library Book	2,499,041	-	-	2,499,041
Vehicle Parking Shed	1,170,063	-	-	1,170,063
Total	802,479,405	105,085,269	(71,845)	907,016,995

Depreciation

Description	Accumulated Dep. As at 01.01.2016	Depreciation For the Year	Acc. Dep. Related to Disposals	Balance As at 31.12.2016
<i>Depreciable Assets</i>				
Land Scaping Expenses	1,796,474	61,751	-	1,858,226
Land	-	-	-	-
Buildings	164,361,639	25,204,561	(2,745,666)	189,566,201
Plant & Machinery	364,256,682	67,218,178	-	428,731,194
Motor Vehicles	39,826,146	7,774,148	-	45,009,417
Motor Bicycle	165,986	52,993	-	218,980
Equipment	97,912,453	5,827,666	(11,050)	102,403,615
Computer Accessories	7,770,781	986,410	(86,630)	8,660,561
Furniture & Fittings	14,068,679	2,867,592	(79,319)	16,856,952
Bicycle & Carts	23,990	4,798	-	28,788
Tools	5,178,748	302,870	(5,250)	5,476,368
<i>Fully Depreciated Assets</i>				
Library Book	2,499,041	-	-	2,499,041
Vehicle Parking Shed	1,170,063	-	-	1,170,063
Total	699,032,682	110,300,969	(4,252,319)	802,479,405

Written Down Value

Description	Balance As at 31.12.2017
<i>Depreciable Assets</i>	
Land Scaping Expenses	4,194,374
Land	49,471,918
Buildings	245,520,523
Plant & Machinery	426,702,725
Motor Vehicles	37,928,123
Motor Bicycle	26,667
Equipment	21,735,759
Computer Accessories	8,386,399
Furniture & Fittings	7,826,833
Bicycle & Carts	0
Tools	981,993
<i>Fully Depreciated Assets</i>	
Library Book	-
Vehicle Parking Shed	-
Total	802,775,216

Written Down Value

Description	Balance As at 31.12.2016
<i>Depreciable Assets</i>	
Land Scaping Expenses	4,255,162
Land	23,214,262
Buildings	205,924,413
Plant & Machinery	490,813,028
Motor Vehicles	44,012,383
Motor Bicycle	79,660
Equipment	16,073,428
Computer Accessories	3,705,595
Furniture & Fittings	9,292,674
Bicycle & Carts	3,199
Tools	1,283,262
<i>Fully Depreciated Assets</i>	
Library Book	-
Vehicle Parking Shed	-
Total	798,657,068

Note - 02
Intangible Assets

2017							
Cost	Description	Cost As At 01.01.2017	Acquisitions During the Year	Disposals During the Year	Balance As At 31.12.2017	Damaged & Unused Adjustments (Note - 03)	Balance After Adj. of Damaged & Unused As At 31.12.2017
	Computer Software	16,786,901	1,129,673	-	17,916,574	(67,500)	17,849,074
	Total Value of Assets	16,786,901	1,129,673	-	17,916,574	(67,500)	17,849,074

Note - 03

2017				
Description	Accumulated Dep. As at 01.01.2017	Depreciation For the Year	Acc. Dep. Related to Disposals	Balance As at 31.12.2017
Computer Software	15,590,621	537,501	-	16,128,123
Total	15,590,621	537,501	-	16,128,123

Note - 04
Prepaid Lease

2017	
Description	Balance As at 31.12.2017
Computer Software	1,720,952
Total	1,720,952

Note - 05
Damaged & Unused Adjustments

2017				
Description	Balance as at 01.01.2017	Damaged & Unused identified during the year	Disposals during the year	Balance as at 31.12.2017
Plant & Machinery	31,294,389	393,750	-	31,688,139
Equipment	22,691,337	206,835	-	22,898,172
Computer Accessories	487,105	123,305	-	610,410
Furniture & Fittings	434,628	76,745	-	511,373
Tools	1,080,725	100	-	1,080,825
Computer Software	67,500	-	-	67,500
Total	56,055,683	800,735	-	56,856,418

Note - 06
Prepaid Lease

2017				
Description	Cost As At 01.01.2017	Acquisitions During the Year	Disposals During the Year	Cost As At 31.12.2017
Leasehold Land	4,920,845	-	-	4,920,845
Total Value of Assets	4,920,845	-	-	4,920,845

Note - 07

2017				
Description	Accumulated Dep. As at 01.01.2017	Depreciation For the Year	Acc. Dep. Related to Disposals	Balance As at 31.12.2017
Leasehold Land	1,491,636	48,988	-	1,540,624
Total	1,491,636	48,988	-	1,540,624

Note - 08

2017	
Description	Balance As at 31.12.2017
Leasehold Land	3,380,221
Total	3,380,221

Note - 09
Computer Software

2016							
Cost	Description	Cost As At 01.01.2016	Acquisitions During the Year	Disposals During the Year	Balance As at 31.12.2016	Damaged & Unused Adjustments	Balance After Adj. of Damaged & Unused As At 31.12.2016
	Computer Software	16,417,961	368,940	-	16,786,901	(67,500)	16,719,401
	Total Value of Assets	16,417,961	368,940	-	16,786,901	(67,500)	16,719,401

Note - 10

2016				
Description	Accumulated Dep. As at 01.01.2016	Depreciation For the Year	Acc. Dep. Related to Disposals	Balance As at 31.12.2016
Computer Software	15,054,904	535,717	-	15,590,621
Total	15,054,904	535,717	-	15,590,621

Note - 11
Written-Down Value

2016	
Description	Balance As at 31.12.2016
Computer Software	1,128,780
Total	1,128,780

Note - 12
Damaged & Unused Adjustments

2016				
Description	Balance as at 01.01.2016	Damaged & Unused identified during the year	Disposals during the year	Balance as at 31.12.2016
Plant & Machinery	27,116,800	4,177,589	-	31,294,389
Equipment	21,250,477	1,440,860	-	22,691,337
Computer Accessories	390,475	96,630	-	487,105
Furniture & Fittings	270,159	164,469	-	434,628
Tools	1,075,475	5,250	-	1,080,725
Computer Software	67,500	-	-	67,500
Total	50,170,886	5,884,797	-	56,055,683

Note - 13
Prepaid Lease

2016				
Description	Cost As At 01.01.2016	Acquisitions During the Year	Disposals During the Year	Balance As at 31.12.2016
Leasehold Land	4,920,845	-	-	4,920,845
Total Value of Assets	4,920,845	-	-	4,920,845

Note - 14

2016				
Description	Accumulated Dep. As at 01.01.2016	Depreciation For the Year	Acc. Dep. Related to Disposals	Balance As at 31.12.2016
Leasehold Land	1,441,991	49,706	-	1,491,636
Total	1,441,991	49,706	-	1,491,636

Note - 15

2016	
Description	Balance As at 31.12.2016
Leasehold Land	3,429,209
Total	3,429,209

Note - 05

<i>Other Non Current Assets</i>	<i>As at 31.12.2017</i>	<i>As at 31.12.2016</i>
Deposits	1,070,000	220,000
Security Deposits	232,233	218,094
	1,302,233	438,094

Note - 06

<i>Inventories</i>	<i>As at 31.12.2017</i>	<i>As at 31.12.2016</i>
Raw Materials	449,694,018	235,929,691
Packing Materials	38,572,834	30,408,378
Finished Goods	155,543,481	283,819,001
Work-in-Progress	29,215,037	72,657,306
Goods in Transits - R/M	6,427,489	16,676,440
RawMaterial Loan	581,594	31,827
Inventory - Formulation, Research & Dev.	1,710,675	2,013,309
Spare Parts - Plant & Machinery	115,331,036	108,339,758
Fuel & Lubricants	1,036,451	868,302
Inventory - Stationery	999,909	1,128,989
	799,112,524	751,873,001

Note - 07

<i>Trade Debtors & Receivables</i>	<i>As at 31.12.2017</i>	<i>As at 31.12.2016</i>
Debtors - SPC	2,298,338	-
Debtors - DHS	316,077,817	6,860,212
Debtors - Distributors	69,522,656	90,119,524
Distress Loans	29,778,193	22,905,146
Receivables	1,246,780	7,646,356
Cycle Loans	1,821,765	1,964,306
Staff Loans	1,450,033	-
Economic Service Charge - 0.5% (Adv.pay.of Income Tax)	11,288,784	8,655,104
Salary Advance	-	4,000
Festival Advance	531,000	541,000
Import Deposits Refunds	508,500	354,301
	434,523,866	139,049,949

Note - 08

<u>Pre-Payments</u>	<u>As at 31.12.2017</u>	<u>As at 31.12.2016</u>
Advance Payments	624,445	1,835,700
Advance Payments - Machinery & Spare Parts	10,226,313	33,705
Prepayments	1,876,120	2,894,993
Prepaid Staff Cost	4,794,121	3,971,170
	<u>17,520,999</u>	<u>8,735,569</u>

Note - 09

<u>Other Financial Assets</u>	<u>As at 31.12.2017</u>	<u>As at 31.12.2016</u>
Treasury Bills	843,731,264	1,144,738,018
Treasury Bills at NSB	61,306,765	10,845,063
Investments in Trust fund	21,423,039	20,171,345
	<u>926,461,067</u>	<u>1,175,754,426</u>

Note - 10

<u>Cash In Hand & at Bank</u>	<u>As at 31.12.2017</u>	<u>As at 31.12.2016</u>
Bank of Ceylon - Ratmalana	41,084	54,043
Bank of Ceylon - Corporate	1,228,266	971,147
Peoples Bank - Ratmalana	40,698	249,278
Peoples Bank - Corporate	11,634	309,816
Cash in Hand	36,367	28,895
Petty Cash	16,516	18,302
	<u>1,374,564</u>	<u>1,631,481</u>

Note - 11Stated Capital

Stated Capital is made up by Grant amounting to JY. 2,564 million converted at the average rate of Rs. 0.186 amounting to Rs. Rs. 476,904,000.00 and the funds contributed by the General Treasury amounting to Rs. 208,375,000.00 and the value of land amounting to Rs. 4,800,000.00 transferred from the State Pharmaceuticals Corporation.

Note - 12

<u>Deffered Tax Liability</u>	<u>As at 31.12.2017</u>	<u>As at 31.12.2016</u>
Balance at the Beginning of the Year	133,251,496	118,537,632
Charge/(Reversal) as Deferred Tax during the year	2,072,361	14,713,865
	<u>135,323,858</u>	<u>133,251,496</u>

Note - 13

<i>Trade and Other Payables</i>	<i>As at 31.12.2017</i>	<i>As at 31.12.2016</i>
Creditors Control - Packing Materials	3,426,222	7,751,662
Creditors Control - Raw Materials	23,420,969	7,590,666
Creditors Control - Stationery	1,549,446	792,244
Creditors Control - Equipment & Machinery	198,538	6,250,353
Creditors Control - Chemicals	210,016	1,381,226
Creditors Control - Welfare	-	8,000
Creditors Control - General	17,312,272	13,187,480
Creditors Control - Bank	34,661,676	25,459,755
Creditors Control - Employees	2,770,210	2,651,168
Creditors Control - Services	4,101,901	4,171,437
Creditors Control - Other FA	-	18,614,927
Creditors Control - Joint Ventures	18,187,600	-
Employee Security Guarantee - Finance	11,274	10,823
Employee Security Guarantee - Stores	220,959	207,271
Bid Bonds Payable	6,205,643	7,770,028
VAT 1/3 Payable	-	633,049
Paye Tax Payable	(166,155)	(41,199)
E.P.F. & E.T.F. Payables - 25%	-	126,632
Raw Material Loan Taken	180,802	-
	112,291,372	96,565,523

Note - 14

<i>Revenue</i>	<i>For the year 2017</i>	<i>For the year 2016</i>
Sales - SPC	10,774,300	-
Sales - DHS	2,484,217,605	1,901,261,853
Sales - Distribution	679,620,759	533,246,626
	3,174,612,664	2,434,508,479

Note - 15

<i>Cost of Sales</i>	<i>For the year 2017</i>	<i>For the year 2016</i>
Cost of Sales - SPC	8,172,816	-
Cost of Sales - SPMC	407,543,593	335,576,654
Cost of Sales - DHS	1,980,764,645	1,348,813,994
Cost of Sales - Raw Materials	210,341	315,180
Cost of Sales Invoice Variance	581,873	803,566
Finished Goods Adj-Stock take	(5,604)	-
Production Expenses	269,412,465	202,746,756
	2,666,683,665	1,888,256,150

Note - 23

Note - 16

<i>Other Operating Income</i>		<i>For the year</i> <u>2017</u>	<i>For the year</i> <u>2016</u>
Miscellaneous Income	Note 16 - A	20,711,713	20,316,413
Finished Goods & Raw Material Sales		276,823	394,034
Over Provisions for Doubtful Debts		-	570,257
Profit or Loss on Disposal		-	4,909,777
		20,988,536	26,190,482

Note 16 - A

<i>Miscellaneous Income</i>		<i>For the year</i> <u>2017</u>	<i>For the year</i> <u>2016</u>
Scrap Sales		1,314,495	3,261,587
Registration of Suppliers		214,000	233,500
Tender Document Fee		279,882	464,800
Unpaid Bid Bonds-More than two years		-	4,473,719
Claim from Bank Guarantee		-	7,525,587
Claimed Late Charges		12,971,037	-
Unclaimed Retentions		4,952,389	4,187,151
General		979,910	170,070
		20,711,713	20,316,413

Note - 17

<i>Administration Expenses</i>	<i>For the year</i>	<i>For the year</i>
	<i>2017</i>	<i>2016</i>
Salaries & Wages	29,765,783	24,097,230
Casual Salaries	13,104,068	13,097,099
Cost of Living	6,609,447	5,431,538
Travelling Incentive	7,663,336	3,948,912
E.P.F. & E.T.F. - 15%	5,556,076	6,444,008
Overtime	8,138,628	4,816,754
Attendance Incentive	4,469,285	3,149,274
Performance Incentive	8,069,379	5,598,191
Annual Bonus	1,442,728	1,145,581
Current Service Cost	855,428	1,387,752
Employee Interest Cost	1,286,664	1,722,125
Shift Incentive	201,206	128,150
Staff Cost	795,841	218,459
Staff Medical Expenses	1,458,535	2,646,857
Housing Loan Int.Reimbursement	2,429,940	1,677,357
Supervisor Allowance	143,806	12,000
Difficult Working Condition Allowance	179,508	-
Professional Allowance	192,000	-
Special Acting Incentive	162,000	217,931
Retirement Benefit	-	58,000
Telephone Bill Reimbursement	539,048	556,853
Ins.of Health Insurance Scheme	209,109	2,577,917
Staff Welfare	9,438,124	6,737,015
Staff Training	5,005,516	2,335,259
Uniforms & Shoes	733,761	416,909
Travelling - Overseas	13,282,712	9,275,865
Directors Fees	230,000	368,000
Other Incentives	2,359,580	1,543,300
Rates & Taxes	276,231	276,231
Electricity	10,176,759	11,889,330
Water Charges	728,539	679,142
Insurance - General	79,650	145,158
Insurance - Vehicles	1,181,244	1,116,048
Rapairs & Maintenance of Motor Vehicles	3,876,145	4,110,199
Fuel & Lubricants for Vehicles	2,744,585	2,885,378
Maintenance of Equipment	1,237,632	770,613
Maintenance-Administration	2,571,917	3,373,539
Depreciation	16,374,644	18,441,808
Transport Charges	1,028,774	730,547
Postage & Fax	330,484	290,147
Telephone Charges	1,224,192	1,049,156
Security Charges	1,544,737	993,552
Donations	9,468,973	619,803
Licence Fee - Vehicles	108,845	132,236
Licence Fee - Drugs	2,660,925	3,251,501
Licence Fee - Others	745,410	6,161
Printing & Stationery	2,979,426	1,992,543
Office Expenses	319,934	146,849
Audit Fee	611,097	640,625
Rent Charges	12,753,602	4,480,611
Advertisements	3,673,512	4,683,735
Trade Subs.& Periodicals	262,095	273,647
Legal & Inquiry Expenses	558,680	349,750
Professional Charges	166,419	361,335
Entertainment	1,135,510	756,779
Annual Subscription	52,500	40,000
Annual Conference & Meetings	10,000	11,000
Stamp Fee	42,350	41,975
Cost of Damaged & Unused	324,902	1,632,478
Expenses of Training School - CTPPM	1,007,798	-
Stationary Adj-Stock take	67	8,339
	204,579,086	165,788,553

Note - 27

<i>Note - 18</i>	<i>For the year</i>	<i>For the year</i>
<i>Selling & Distribution Expenses</i>	<i>2017</i>	<i>2016</i>
Promotional Discounts	24,701,981	15,642,548
Sales Promotion Expenses	38,092,942	32,735,666
Cost of Rejected Finished Goods	126,003	2,048
30th Anniversary Celebration	4,709,477	-
	<u>67,630,402</u>	<u>48,380,262</u>

<i>Note - 19</i>	<i>For the year</i>	<i>For the year</i>
<i>Other Operating Expenses</i>	<i>2017</i>	<i>2016</i>
Formulation, Research & Dev.	11,424,806	4,324,220
Stock Take Adjustments - FD	2,821	(144,934)
Exchange Loss	498,900	318,143
	<u>11,926,527</u>	<u>4,497,428</u>

<i>Note - 20</i>	<i>For the year</i>	<i>For the year</i>
<i>Finance Cost</i>	<i>2017</i>	<i>2016</i>
Bank Charges	394,764	238,959
O.D. Interest	11,328	2,000
	<u>406,092</u>	<u>240,959</u>

<i>Note - 21</i>	<i>For the year</i>	<i>For the year</i>
<i>Finance Income</i>	<i>2017</i>	<i>2016</i>
Staff Loan Interest	986,470	836,586
Treasury Bill Interest	73,534,273	85,783,178
Interest Income - Staff Loan	2,880,351	1,009,515
Course Fee - Training School - CTPPM	206,000	-
	<u>77,607,094</u>	<u>87,629,279</u>

<i>Note - 22</i>	<i>For the year</i>	<i>For the year</i>
<i>Income Tax Expense</i>	<i>2017</i>	<i>2016</i>
Current Tax Expense Note - 22 A	81,019,139	112,684,115
Deferred Tax Expense Note - 22 B	2,072,361	14,713,865
Deemed Dividend Tax	14,983,082	17,120,193
	<u>98,074,582</u>	<u>144,518,173</u>

Note - 22 A

<i>Current Tax Expense</i>	<i>For the year</i>	<i>For the year</i>
	<i>2017</i>	<i>2016</i>
Income Tax on Profit for the year Note - 22 A (i)	82,050,192	112,684,115
Over / Under Provision for Income Tax	(1,031,053)	-
	<u>81,019,139</u>	<u>112,684,115</u>

Note - 22 A (i)

<i>Income Tax on Profit for the year</i>	<i>For the year</i>	<i>For the year</i>
	<i>2017</i>	<i>2016</i>
Profit before Taxation	321,982,521	441,164,887
Disallowable Expenses	124,056,791	130,936,087
Allowable Expenses	(131,993,120)	(145,148,228)
Tax exempt Income	(73,534,273)	(85,783,178)
Tax Income from Treasury Bill Interest	81,704,748	95,314,642
Assessable Income	322,216,667	436,484,210
Taxable Income	322,216,667	436,484,210
Tax Rate on Taxable Income	28%	28%
Income Tax on Taxable Income	90,220,667	122,215,579
Nortional Tax	(8,170,475)	(9,531,464)
Total Income Tax	<u>82,050,192</u>	<u>112,684,115</u>

Note - 22 B

<i>Deferred Tax</i>	<i>For the year</i>	<i>For the year</i>
	<i>2017</i>	<i>2016</i>
<i>Charge/(Reversal) as Deferred Tax during the year</i>		
Deferred Tax on Deferred Tax Liabilities	146,863,646	144,692,969
Deferred Tax on Deferred Tax Assets	(11,539,788)	(11,441,473)
Deferred Tax Liability at the end of the year	135,323,858	133,251,496
Deferred Tax Liability at the beginning of the year	133,251,496	118,537,631
Charge/(Reversal) as Deferred Tax during the year	<u>2,072,361</u>	<u>14,713,865</u>

Note - 23

<i>Production Cost</i>	<i>For the year 2017</i>	<i>Sub Note</i>	<i>For the year 2017</i>
Direct Labour(Production)			
Salaries & Wages	6,098,836	Note 23 A	673,932
Casual Salaries	714,520	Note 23 A	165,777
Cost of Living	2,671,253	Note 23 A	803,270
Travelling Incentive	3,486,050	Note 23 A	421,469
E.P.F. & E.T.F. - 15%	3,429,875	Note 23 A	2,547,687
Overtime	5,427,637	Note 23 A	1,797,901
Attendance Incentive	3,454,931	Note 23 A	1,358,711
Performance Incentive	4,245,293	Note 23 A	5,207,544
Annual Bonus	2,150,113		1,871,914
Current Service Cost	1,018,451		2,097,874
Employee Interest Cost	1,548,027		2,207,717
Shift Incentive	2,160,646		924,350
Staff Medical Expenses	2,182,047		1,689,176
Housing Loan Int.Reimb.	5,525,703		2,045,008
Additional Monthly Incentive	259,000		187,318
Supervisor Allowance	108,000		9,000
Difficult Working Condition Allowance	3,315,937		-
Professional Allowance	48,000		-
Retirement Benefit	240,000		-
Staff Cost	1,217,812		432,678
	49,302,129		24,441,327
Indirect Manufacturing Cost (QC,FD,Plan,Main)			
Salaries & Wages	24,901,275	Note 23 A	11,659,751
Casual Salaries	1,717,681		481,822
Cost of Living	7,406,654		6,119,979
Travelling Incentive	4,833,619		3,896,194
E.P.F. & E.T.F. - 15%	6,074,664		7,123,770
Overtime	7,270,687		3,218,605
Attendance Incentive	5,252,981		4,336,108
Performance Incentive	9,860,040		5,900,362
Annual Bonus	1,636,439		1,375,801
Current Service Cost	781,463		1,543,342
Employee Interest Cost	1,047,237		1,516,963
Shift Incentive	620,184		351,450
Staff Medical Expenses	1,597,258		2,107,156
Housing Loan Int.Reimbursement	3,448,823		2,301,680
Additional Monthly Incentive	259,000		187,318
Supervisor Allowance	213,097		18,000
Difficult Working Condition Allowance	1,541,942		-
Professional Allowance	54,000		-
Staff Cost	866,698		358,378
Special Acting Allowance	117,151		67,428
Telephone Bill Reimbursement	314,494		299,647
Insurance of Health Ins.Scheme	84,864		6,555,255
Staff Welfare	16,755,682	Note 23 A	10,787,391
Staff Training	6,655,910		1,862,511
Uniforms & Shoes	1,508,316		990,052
Water Charges	475,563	Note 23 A	14,490
Rates & Taxes	646,216		359,764
Electricity	2,580,997	Note 23 A	15,842
Insurance - General	343,977	Note 23 A	600,535
Security Charges - Production	5,157,472	Note 23 A	4,535,159
Maintenance of Equipment	1,448,003	Note 23 A	30,926
Maintenance-Production	2,832,580	Note 23 A	1,345,396
Depreciation	89,297,112		92,444,583
Transport Charges	1,705,749		1,613,171
Consumption - Spare Parts	1,441,708	Note 23 A	2,726,864
Consumption - Fuel & Lubricants	717,530	Note 23 A	565,007
Repairs & Maintenance P & M	1,602,711	Note 23 A	250,832
Quality Control Expenses	2,249,654		64,257
R/M Destruction Charges	855,294		-
Cost of Rejected Raw Materials	654,452		(322,688)
Cost of Rejected Paking Materials	3,261		16,365
Cost of Rejected Work in Progress	3,142,914		1,415,341
Cost of Damaged Raw Materials	(24,000)		(24,000)
Raw Material Adj-General Drugs	(12,685)		724
Raw Material Adj-Penicillin Drugs	(3,634)		(84,283)
Raw Material Adj-Stock Take	244,207		(612,202)
Packing Material Adj-Stock Take	43,986		(6,738)
Stock Take Adjustment - Main	(160,048)		20,561
Work-in-Progress Adj-Stock Take	47,159		276,559
Transfer to the Cost of Sales which were not absorbed to the Product Cost	269,412,465		202,746,756

Note 23 A

<u>Production Cost</u>	<u>Unabsorbed cost</u>	<u>Absorbed Cost to the Cost of Sales</u>	<u>Total 2017</u>	<u>Total 2016</u>
<u>Direct Labour(Production)</u>				
Salaries & Wages	6,098,836	32,851,316	38,950,152	38,538,099
Casual Salaries	714,520	1,674,064	2,388,585	2,184,770
Cost of Living	2,671,253	6,972,168	9,643,421	9,424,691
Travelling Incentive	3,486,050	2,457,898	5,943,948	4,772,572
E.P.F. & E.T.F. - 15%	3,429,875	4,346,684	7,776,559	9,602,724
Overtime	5,427,637	1,228,762	6,656,398	4,872,280
Attendance Incentive	3,454,931	2,246,519	5,701,450	7,630,237
Performance Incentive	4,245,293	7,987,959	12,233,251	10,346,700
Annual Bonus	2,150,113	-	2,150,113	1,871,914
Current Service Cost	1,018,451	-	1,018,451	2,097,874
Employee Interest Cost	1,548,027	-	1,548,027	2,207,717
Shift Incentive	2,160,646	-	2,160,646	1,532,350
Staff Medical Expenses	2,182,047	-	2,182,047	2,545,905
Housing Loan Int.Reimb.	5,525,703	-	5,525,703	2,956,371
Additional Monthly Incentive	259,000	-	259,000	187,318
Supervisor Allowance	108,000	-	108,000	9,000
Difficult Working Condition Allowance	3,315,937	-	3,315,937	-
Professional Allowance	48,000	-	48,000	-
Retirement Benefit	240,000	-	240,000	-
Staff Cost	1,217,812	-	1,217,812	432,678
	49,302,129	59,765,370	109,067,498	101,213,201
<u>Indirect Manufacturing Cost (O/C,F/D,Plan/Main)</u>				
Salaries & Wages	24,901,275	6,041,066	30,942,342	30,074,102
Casual Salaries	1,717,681	-	1,717,681	1,110,787
Cost of Living	7,406,654	-	7,406,654	7,146,012
Travelling Incentive	4,833,619	-	4,833,619	3,896,194
E.P.F. & E.T.F. - 15%	6,074,664	-	6,074,664	7,123,770
Overtime	7,270,687	-	7,270,687	3,218,605
Attendance Incentive	5,252,981	-	5,252,981	4,336,108
Performance Incentive	9,860,040	-	9,860,040	7,669,078
Annual Bonus	1,636,439	-	1,636,439	1,375,801
Current Service Cost	781,463	-	781,463	1,543,342
Employee Interest Cost	1,047,237	-	1,047,237	1,516,963
Shift Incentive	620,184	-	620,184	351,450
Staff Medical Expenses	1,597,258	-	1,597,258	2,107,156
Housing Loan Int.Reimbursement	3,448,823	-	3,448,823	2,301,680
Additional Monthly Incentive	259,000	-	259,000	187,318
Supervisor Allowance	213,097	-	213,097	18,000
Difficult Working Condition Allowance	1,541,942	-	1,541,942	-
Professional Allowance	54,000	-	54,000	-
Staff Cost	866,698	-	866,698	358,378
Special Acting Allowance	117,151	-	117,151	67,428
Telephone Bill Reimbursement	314,494	-	314,494	299,647
Insurance of Health Ins.Scheme	84,864	-	84,864	9,188,266
Staff Welfare	16,755,682	7,135,813	23,891,495	21,903,614
Staff Training	6,655,910	-	6,655,910	1,862,511
Uniforms & Shoes	1,508,316	-	1,508,316	990,052
Water Charges	475,563	900,306	1,375,869	1,608,724
Rates & Taxes	646,216	-	646,216	645,747
Electricity	2,580,997	21,116,455	23,697,452	27,777,101
Insurance - General	343,977	965,590	1,309,567	600,535
Security Charges - Production	5,157,472	2,004,353	7,161,825	4,535,159
Maintenance of Equipment	1,448,003	3,315,344	4,763,348	1,774,619
Maintenance-Production	2,832,580	7,858,266	10,690,846	12,641,260
Depreciation	89,297,112	-	89,297,112	92,444,583
Transport Charges	1,705,749	-	1,705,749	1,613,171
Consumption - Spare Parts	1,441,708	11,891,810	13,333,518	9,450,832
Consumption - Fuel & Lubricants	717,530	10,287,674	11,005,204	12,779,810
Repairs & Maintenance P & M	1,602,711	1,290,862	2,893,572	556,218
Quality Control Expenses	2,249,654	-	2,249,654	1,533,019
R/M Destruction Charges	855,294	-	855,294	-
Cost of Rejected Raw Materials	654,452	-	654,452	(322,688)
Cost of Rejected Paking Materials	3,261	-	3,261	16,365
Cost of Rejected Work in Progress	3,142,914	-	3,142,914	1,415,341
Cost of Damaged Raw Materials	(24,000)	-	(24,000)	(24,000)
Raw Material Adj-General Drugs	(12,685)	-	(12,685)	724
Raw Material Adj-Penicillin Drugs	(3,634)	-	(3,634)	(84,283)
Raw Material Adj-Stock Take	244,207	-	244,207	(612,202)
Packing Material Adj-Stock Take	43,986	-	43,986	(6,738)
Stock Take Adjustment - Main	(160,048)	-	(160,048)	20,561
Work-in-Progress Adj-Stock Take	47,159	-	47,159	276,559
	269,412,465	132,572,908	401,985,374	378,499,877

Note 24Retirement Benefit Obligation

The amounts recognized in the Financial Position are as follows.

	<u>31.12.2017</u>	<u>31.12.2016</u>
Net Liability at the beginning of the Year	40,862,404	60,520,058
Current Service Cost	2,655,342	5,028,968
Interest Cost	3,881,928	5,446,805
(Gain)/loss due to changes in assumptions	(2,121,769)	(24,048,388)
Experience (gain)/loss	(1,226,459)	(4,817,184)
	44,051,446	42,130,259
Less:		
Payment made during the Year	(2,837,917)	(1,267,855)
	41,213,529	40,862,404

The Retirement benefit Liability of the Corporation is based on the actuarial valuation carried out by Piyal S.Gunathilleke and Associates. The Principal assumptions used in determining the cost of retirement benefit were,

Expected Annual Average Salary Increment Rate	4%	4%
Discount Rate	10.4%	9.5%
Staff Turnover Factor	2.67%	2.67%

The amounts recognized in the Income Statement are as follows.

Current Service Cost	2,655,342	5,028,968
Interest Cost	3,881,928	5,446,805

An Actuarial valuation was to assess the present value of the Financial Position date 31st December 2017 to bring their best estimates

Note 25Related Party Disclosures

Details of significant related party disclosures are as follows.

<u>Organization</u>	<u>Relationship</u>	<u>Nature of Transaction</u>	<u>Sales During the year</u>
Medical Suppliers Division	Customer	Sale of Goods	2,484,217,605
State Pharmaceuticals Corporation - Through Distribution	Customer	Sale of Goods	50,024,605
Tenders - Through	Customer	Sale of Goods	10,774,300

Note 26Sold of Impaired Assets

During the year sold Assets cost is Rs. 8,048,368.00 Out of this Rs. 7,793,950.00 Impaired Assets have been sold during the year 2016

Note 27Insurance of Health Ins.Scheme

In the year of 2016 erroneously we have overstated the expense of Surgical Health Insurance by Rs.5,784,963/-.That was overstated under Insurance of Health Insurance Scheme in Administration Expenses as Rs.1,251,866/- and under Insurance of Health Insurance Scheme in Indirect Manufacturing Cost as Rs.4,533,097/-.According to that Financial Statements related to the year 2016,it has been stated as follows.

<u>Note - 17</u>	<u>As per Financial</u>	<u>Overstaed Value</u>	<u>Correct value</u>
<u>Administration Expenses</u>	<u>Statements of 2016</u>		<u>shold be</u>
Ins.of Health Insurance Scheme	2,577,917	1,251,866	1,326,051
<u>Note 23 & Note 23 A Indirect Manufacturing Cost (QC,FD,Plan,Main)</u>			
Ins.of Health Insurance Scheme	9,188,266	4,533,097	4,655,169

Therefore in the year of 2017,expense of Surgical Health Insurance understaed by that amount of Rs.5,784,963/-

<u>Note - 17</u>	<u>As per Financial</u>	<u>Understaed Value</u>	<u>Correct value</u>
<u>Administration Expenses</u>	<u>Statements of 2017</u>		<u>shold be</u>
Ins.of Health Insurance Scheme	209,109	1,251,866	1,460,975
<u>Note 23 & Note 23 A Indirect Manufacturing Cost (QC,FD,Plan,Main)</u>			
Ins.of Health Insurance Scheme	84,864	4,533,097	4,617,961

Note 28Receivables

There is an on going Investigation for the payment made to M/S Joychem Ltd - China by Telegraphic Transfer to purchase Theophylline Anhydrous 1000 kg. Therefore Advance payment of Rs.1,577,780.29 has been transferred to Receivable Account.



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

HSM/A/SPMC/1/17/43

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

05 September 2018

Chairman

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

Report of the Auditor General on the Financial Statements of the State Pharmaceuticals Manufacturing Corporation of Sri Lanka for the year ended 31 December 2017 in terms of Section 14(2) (c) of the Finance Act, No. 38 of 1971.

The audit of financial statements of the State Pharmaceuticals Manufacturing Corporation of Sri Lanka for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 29 of the State Industrial Corporations Act, No.49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed Report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Corporation on 26 July 2018.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.



1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.



2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the State Pharmaceuticals Manufacturing Corporation of Sri Lanka as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 1

Even though assets and liabilities should not be offset against each other in terms of Section 32 of the Standard, debit balance of Rs.166,155 in the Pay As You Earn Tax Account of the Corporation had been offset against the credit balance of Rs.112,457,527 of the Trade and Other Creditors Account and it had been shown as Rs.112,291,372 in the financial statements.

(b) Sri Lanka Accounting Standard 16

Since useful life of non-current assets had not been reviewed annually in terms of Paragraph 51 of the Standard, fixed assets costing Rs.223,206,845 had still been in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in the estimation in terms of Sri Lanka Accounting Standard 08.



(c) Sri Lanka Accounting Standard 24

According to Paragraph 17 of the Standard, information relating to Key Management Personnel Compensation had not been disclosed in the financial statements.

2.2.2 Accounting Policies

The following observations are made.

- (a) In terms of Paragraph 4.56 of the Conceptual Framework for Financial Reporting, although the historical cost method is the method of measurement abundantly used in the preparation of financial statements by the Corporation, it remains combining with other methods of measurements. As such, separate methods of measurements should be identified for measuring assets and liabilities. Nevertheless, without carrying out such identification by the Corporation, it had been stated that only the historical cost method would be used under Accounting Policy 2.2. in the financial statements.
- (b) According to Paragraph 67 of Sri Lanka Accounting Standard 19, the projected unit credit method should be used in the computation of employees gratuity liability. Nevertheless, it had not been disclosed in the accounting policies as to whether the above method was used by the Corporation.

2.2.3 Accounting Deficiencies

Although it had been stated by the Letter No.MSD/SB11/SPMC/2017/QF dated 02 October 2017 of the Director of the Medical Supply Division that a stock of Folic Acid Tablets sold to the Medical Supply Division during the year 2014 had failed in quality, a sum of Rs.1,609,965 payable thereon to the above division had not been brought to accounts.



2.3 Accounts Receivable and Payable

Action had not been taken either to refund or credit to the revenue a sum of Rs.429,955 retained in making payments for 03 suppliers for over a period of 2 years.

2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations

Non-compliance

- | | |
|---|---|
| <p>(a) Public Finance Circular No.438 of 13 November 2009</p> | <p>Action had not been taken to dispose of the stocks of raw materials, finished goods and packaging materials costing Rs.17,360,465 that remained unusable as at 31 December 2017 as well as 395 units of assets costing Rs.56,788,918, the book value of which was zero.</p> |
| <p>(b) Paragraph No.02-01 of the Letter No.DMS/E4/10/4/090/2 dated 09 March 2009 of the Department of Management Services addressed to the Secretary to the Health.</p> | <p>(i) Contrary to the relevant letter, a transport allowance of Rs.4,700 and Rs.3,000 had been paid monthly to the executive and non-executive officers of the Corporation respectively from the year 2009 regardless of the distance travelled. According to a decision of the Board of Directors, that allowance had been paid by increasing the same up to Rs.5,450 and Rs.3,750 respectively from the year 2016.</p> |



- (ii) In terms of the letter, although a sum of Rs.4,000 only could be paid to the staff members as a monthly production incentive, without being complied with that, production incentive had been paid to the entire staff subject to a maximum of Rs.12,000 per month with effect from 01 July 2011. Accordingly, overpayments totalling Rs.62,719,822 had been made from July 2011 up to 31 December 2017 comprising the overpayment of Rs.17,154,670 made during the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Corporation for the year under review had been a net profit of Rs.223,907,939 as compared with the corresponding net profit of Rs.296,646,714 for the preceding year, thus indicating a deterioration in the net profit by Rs.72,738,775 in the year under review as compared with the preceding year. Even though the expenditure on tax had decreased by Rs.46,443,591 in the year under review as compared with the preceding year, decrease of the gross profit by Rs.38,323,331 and increase in administrative expenditure and sales and distribution expenditure by Rs. 38,790,533 and Rs.19,250,140 had mainly attributed to the above deterioration in the financial result.

An analysis of financial results of the year under review and 04 preceding years revealed a continuous net profit from the year 2013 up to the year under review. Nevertheless, it had fluctuated annually. After readjusting the employees' remuneration, Government tax and depreciation for the non-current assets to the financial results, the contribution of the Corporation amounting to Rs.662,577,528 in the year 2013 had improved up to Rs.838,962,510 in the year 2017 with fluctuations



between 6 per cent and 10 per cent and contribution of the year 2017 had decreased by 4 per cent in relation to the year 2016.

3.2 Analytical Financial Review

The following observations are made

- (a) As compared with the preceding year, the Gross Profit Ratio and the Net Profit Ratio had decreased by 6.4 per cent and 8 per cent respectively during the year under review.
- (b) As compared with the preceding year, the Debtors Turnover Ratio had decreased by 14.1 folds and the loan recovery period had extended by 15 days. The Creditors Turnover Ratio had increased by 6.8 folds and the creditors turnover period had been reduced by 5 days. It was observed that the efficiency of the operating activities of the Corporation should be increased by paying attention on the above matter.

4. Operating Review

4.1 Performance

4.1.1 Operation and Review

Out of the activities included in the Action Plan prepared for the year under review, it had been failed to carry out 05 activities relevant to the Marketing Department, one activity relevant to the Manufacturing Department, 06 activities relevant to the Quality Control Department, 02 activities relevant to the Human Resources Department, 03 activities relevant to the Formula and Development Department, 02 activities relevant to the Engineering Department and one activity relevant to the Information Technology Department



4.2 Management Activities

The following observations are made.

- (a) Even though the purchase of drugs manufactured by private institutions and reselling of such drugs is not an objective coming under the main objectives of the Corporation, without being properly amended the objectives specified in the Act and obtained the approval of the Cabinet of Ministers, an agreement had been entered into with an Indian Company on 05 April 2016 for the production and supply of drugs to the Corporation. Since the period of the above agreement had ended on 04 April 2017, a new agreement had been entered into for a period of one year on 14 December 2017.
- (b) In calling for bids for the purchase of 1,000 units of raw materials of the Theophylline Anhydrous USP 32 drug, the order had been awarded on 24 May 2017 to the bidder who had presented the minimum quotations and payment had been made under Telegraphic Transfer method on 25 May 2017. Nevertheless, the 1,000 units of raw materials had not been received by the Corporation even by 30 June 2018. The following observations are made in this connection.
- (i) In terms of conditions included in the agreement and the bid documents relevant to the procurement, payments should be made to the supplier through the Letters of Credits. Nevertheless, contrary to that, payments had been made before the receipt of raw materials through the Telegraphic Transfer method without being obtained the approval of the Procurement Committee and contrary to the provisions indicated in the Financial Regulation 237 (b).
- (ii) Since 3,000 kilograms of this raw material had been ordered on 27 October 2016 from another supplier before the award of this order and that stock was due to be received by the Corporation by June 2017, there was no room for arising a stock shortage. Nevertheless, the reason behind the placing order for 1000 kilograms of this raw material again and making urgent payment through the Telegraphic Transfer method was not revealed to Audit.

- (iii) Due to an order made under the sign of the Deputy General Manager (Finance) and the Deputy General Manager (Quality Control) without establishing the authenticity of a false e-mail message received by the Manager (Planning and Procurement) on 25 May 2017 to the effect that the bank account number had been changed due to a tax computation and money be deposited to that new number, a sum of Rs.1,577,780 had been paid on 25 May 2017 so as to be credited to a bank account referred to in the false e-mail message which was not owned by the proper supplier.
- (iv) According to the authority vested in the Deputy General Manager (Quality Control) who was the second signee, his maximum approvable limit amounted to Rs.500,000, whereas approval had been granted for making payment exceeding the above limit.
- (v) Although Rs.331,000 out of the total loss of Rs. 1,577,780 had been recovered from the performance bid security of the supplier, the balance of Rs.1,246,780 had not been recovered even by 20 July 2018.
- (vi) Action had not been taken to identify the officers responsible for the loss incurred and recover the same.
- (c) Even though a shortage of 08 items costing Rs. 391,250 included in the Register of Fixed Assets had been revealed at the physical stores verification held on 31 December 2017, action had not been taken to identify the reasons attributed to the shortage and make remedial measures and to take future steps in terms of Financial Regulation 103.
- (d) Since drugs had been imported from an Indian Company, manufacturing of 04 items of drugs had been discontinued during the year under review and as such, 204 kilograms of raw materials costing Rs.1,789,731 imported for the production of the above 04 items of drugs remained unused over a period of one year.



4.3 Operating Activities

The following observations are made.

- (a) The Medical Supply Division had placed orders for Domperidone Malate BP drugs at 50 million units during the years 2017 and 2018. Although 100 kilograms of raw materials costing Rs.1,214,384 had been purchased for the production of the above medicine in October 2017, that medicine had not been manufactured during a period of 8 months up to 04 June 2018. Plans had not been drawn for the production of that medicine even in the production plan given to the Audit pertaining to the month of March 2018. However, instead of manufacturing that medicine, the total order had been completed from the drugs imported from Till Healthcare (Pvt) Ltd in India.
- (b) The remaining stock of the raw material called Microcrystalline Cellulose-200XML stood at 406 kilograms by August 2017 and the above stock had expired as at that date. The drug which is manufactured using the above raw material had not been manufactured after August 2017 and raw materials costing Rs.7,943,351 had been purchased at 3,000 kilograms, 2,000 kilograms and 3,000 kilograms in January, February and June 2018 respectively. However, those raw materials had not been utilized for manufacturing activities even by 18 June 2018.
- (c) Out of the drugs ordered by the Medical Supply Division for the year under review, the Corporation had failed to supply 39,174 million units of 08 categories of drugs, the sales price of which was Rs.70,113,783 during the year under review.

4.4 Transactions of Contentious Nature

Although dinner had been provided at a cost of Rs. 595,000 for the medical officer for two days during the year under review, particulars on the medical officers to whom the dinner had been provided and the requirement for providing the dinner were not furnished to Audit.



4.5 Identified Losses

Five items of raw materials valued at Rs.2,438,354 had expired by 31 December 2017, whereas action had not been taken to recognize the parties responsible for the loss by conducting a formal inquiry and properly dispose of such raw materials and eliminate them from the stock registers.

4.6 Staff Administration

The following observations are made.

- (a) Action had not been taken to fill the post of Deputy General Manager (Sales) that remained vacant from a period of 07 years by 05 June 2018, the date of audit.
- (b) Five officers had been recruited to 05 posts on contract basis, exceeding the approved cadre.
- (c) Five officers had been recruited on contract basis as one officer in 2016 and 04 officers in 2017 for the posts of Formula and Research Executive, Media Coordinating Officer, Programme Coordinating Officer and the Project Coordinator which had not been included in the approved cadre. Since there was no approved scheme of recruitment for those posts, it could not be examined as to whether the officers with sufficient qualifications had been recruited for the above posts.
- (d) It had been reported that having published a newspaper advertisement on 02 July 2017 in order to fill the vacancies of the post of Deputy General Manager (Human Resources), the interview was conducted for three applicants selected out of the received applications, whereas the report of the interview board had not been signed by the members of the above board. An applicant whose age had exceeded the age limit included in the scheme of recruitment had been recruited on contract basis for a period of 06 months with effect from 20 September 2017 on the instructions of the Chairman and the approval of the Board of Directors of the Corporation and without taking action to permanently fill the above post since a period of 08 months even by 05 June 2018, service of the aforesaid officer had been extended. The reasons behind the making recruitment to this permanent post on contract basis were not furnished to audit.



ජාතික විගණන කාර්යාලය
 தேசிய கணக்காய்வு அலுவலகம்
 NATIONAL AUDIT OFFICE

- (e) In terms of scheme of recruitment pertaining to the recruitment of minor employees of the Corporation, employees should be recruited by publishing vacancies through newspaper advertisements, conducting interviews and giving marks according to the qualifications. Nevertheless, contrary to that, 20 minor employees comprising 19 on permanent basis and one employee on contract basis had been recruited relating to the posts of Driver, Drugs Manufacturing Assistant and Labourer during the year under review. Further, a labourer and a driver recruited on contract basis in the preceding years had been confirmed in those posts during the year under review without following the scheme of recruitment.
- (f) Without publishing vacancies through the newspaper advertisements, conducting written test and an interview and without giving marks for the qualifications in accordance with the scheme of recruitment relevant to the non-executive employees of the Corporation, 09 officers had been recruited on permanent basis to the post of Management Assistant and Drugs Technician during the year under review.

5. Sustainable Development

5.1 Achievement of the Sustainable Development Goals

Every Public institution should take steps in accordance with the Agenda 2030 of the United Nations Sustainable Development Goals. Although the State Pharmaceutical Manufacturing Corporation was aware of the manner in which it should take action in connection with the functions coming under its scope, the parties interested in the functions of the State Pharmaceutical Manufacturing Corporation with regard to the implementation of sustainable development goals had not been recognized.



6. Accountability and Good Governance

6.1 Procurement and Contract Process

6.1.1 Procurement

The following observations are made.

- (a) The Procurement Time Table had not been properly prepared relating to the Main Procurement Plan prepared for the year under review.

- (b) With the objective of establishing a training school and a common testing laboratory, a land with a four storied building situated in Bulathsinhala area of the Kalutara district which had been mortgaged to state bank had been purchased at a cost of Rs.88 million during the year under review. The following observations are made in this connection.
 - (i) The objective of establishing a common testing laboratory and a training school had not been included in the Action Plan.
 - (ii) Even though the Board of Director had decided that a Special Technical Evaluation Committee should be appointed for the preparation of a financial and feasibility report relating to the aforesaid purchase, action had not been taken either to appoint a Special Technical Evaluation Committee or prepare a financial and feasibility report.
 - (iii) Since it had been included in the newspaper advertisement published relating to calling for bids that the property which is expected to be purchased should be situated within 5 kilometers from the Bulathsinhala, the Corporation had not taken action to ensure fair, equal and maximum opportunities for the qualified and interested parties to participate in the procurement. Similarly, the Standard Bidding Documents had not been utilized as required by Guideline 5.3.1 of the Government Procurement Guidelines and as such, it could not be compared each other the presented two bids and it had not been considered by the Technical Evaluation Committee and the Procurement Committee. Further, in terms of Guideline 6.3.3 and 6.3.6

of the Government Procurement Guidelines, a bid opening committee had not been appointed and the activities pertaining to the opening of bids had not been recorded in a prescribed format. It was observed according to the above reasons that the procurement had taken place devoid of the competitiveness and transparency.

- (iv) Without following the requirements such as obtaining an opinion/clarification from the Legal Division of the Ministry of Health, Nutrition and Indigenous Medicine regarding the relevant property, obtaining a Certificate of Completion –COC for the building from the relevant Local Authority through the seller, obtaining details of the mortgage-deed regarding the land with the building from the relevant bank branch and obtaining a Structural Report of the building either from the State Engineering Corporation or Central Engineering Consultancy Bureau as recommended by the Technical Evaluation Committee to carry out before making the above purchasing, the bidder who had presented the minimum bid had been selected as the prospective bidder by the Procurement Committee of the Department.
- (v) If this matter was discussed with the bank branch to which the land with the building had been mortgaged, it could have been aware of the fact that the value of the final determination was Rs.66 million and that the relevant bank had decided to auction the above land. Nevertheless, due to failure in taking action accordingly, it had led to miss the opportunity to discuss with the seller to purchase that property at an amount less than Rs.88 million spent for the purchasing.
- (vi) According to the report obtained by the seller from a Structural Engineer and presented to the Corporation, the Structural Report obtained by the Corporation from a Structural Engineer and the physical inspection carried out by Audit in order to examine as to whether the building expected to be purchased would be suitable for the establishment of a laboratory and a training school, systems for the prevention of water leakage in the roof slab area of this building had not been established and that area had directly exposed to the elements,



thus resulting cracking on the walls of the downstairs due to extreme temperature. Cracking could be observed on the walls of the third floor and a railing had not been fixed on the staircase. In order to rectify these defects and renovate the building to suit to the training school, the Departmental Procurement Committee had awarded a contract worth Rs.33,460,608 on 08 May 2018.

- (vii) The seller had not obtained a Certificate of Conformity –COC from the relevant Local Authority on completion of the construction of this building.
- (c) The Corporation had purchase 10 Laptops costing Rs.1,680,550, two air-conditioners costing Rs.307,812, an electric Forklift costing Rs.5,907,895, two service tanks costing Rs.850,000 and an Analytical Balance costing Rs.559,417 under the shopping method. The following observations are made in this connection.
- (i) Steps that should be taken in the purchase of goods under the shopping method such as using the Standard bid document No. NPA/SBD/GOODS/01, appointing a bid opening committee and reporting the bid opening in the prescribed format had not been taken as required by the Guidelines 5.3.1, 6.3.3 and 6.3.6 of the Government Procurement Guidelines respectively.
- (ii) In terms of Guideline 8.9.1 (b) of the Government Procurement Guidelines, a formal agreement had not been entered into relating to the above goods and services contracts, the value of which had exceeded Rs.500,000.
- (iii) In the procurement of the electric Forklift machine, bids had been called for from six bidders and only two of them had presented bids. Those bids had been rejected due to quoting higher prices. In terms of Guideline 7.12.3 of the Government Procurement Guidelines, if lack of effective competition is evident, which results in rejection of all bids



received and wider publicity must be given when re-inviting bids. Nevertheless, instead of giving a wider publicity, the Technical Evaluation Committee had recommended to re-invite bids from the same bidders and the contract had been awarded to the only bidder who had responded to the second invitation of bids. Since action had not been taken to give wider publicity and call for bids from new suppliers, a limited competitiveness was observed.

- (d) Although the spare parts costing Rs.1,258,211 for the Fluid Bed Granulator Dryer and accessories costing Rs.2,560,495 for New Capsule Filling machine had been purchased from there manufacturing institutions under the direct purchasing method, an agreement had not been entered into with the suppliers and without obtaining a bank guarantee, the total amount had been paid to the suppliers under the Telegraphic Transfer method. Even though periods of 06 months and 05 moths had elapsed by 08 June 2018, the date of audit from the date of payment respectively, goods had not been supplied to the Corporation and as a result of failure in entering into a contract agreement, it had not been possible to take any action for not supplying the goods and the losses caused due to delays.

6.1.2 Deficiencies in Contract Administration

For the construction of a building at a total cost estimate of Rs.242,268,015, a consultation firm had been selected on 27 August 2015 and a contractor had been selected on 01 September 2017 for carrying out Pilling Work of the building at a cost of Rs.22,755,500. The following observations are made in this connection.

- (i) The services of the consultation firm selected for this construction being dissatisfied, the Board of Directors had decided on 06 April 2018 to terminate the agreement entered into with the above consultation firm. The agreement entered into with the consultation firm had not been made available to Audit.



- (ii) In selecting a contractor for the Pilling Work of this building , a bid opening committee had not been appointed as required by Guideline 6.3.3 of the Government Procurement Guidelines and the proceedings of the opening of bids had not been recorded in the prescribed format in terms of Guideline 6.3.6 of the above Guidelines. Further, a formal agreement had not been entered into regarding this contract as required by Guideline 8.9.1 (a) of the aforesaid Guidelines.
- (iii) According to the letter dated 01 September 2017 pertaining to the award of the contract, filling works should have been completed on 20 January 2018, whereas works had not been completed even by 15 May 2018.

6.1.3 Delayed Project

Constructions of 02 buildings, the total contract value of which amounted to Rs.144,805,967 were scheduled to be completed on 06 March 2017 and 02 August 2017 respectively according to the letter of awarding the contract. Nevertheless, works had not been completed even by 20 May 2018.

6.2 Tabling Annual Reports

The Annual Report for the year 2016 had not been tabled in Parliament even by 29 June 2018.

6.3 Unresolved Audit Paragraphs

As it had been revealed on 07 June 2016 that the 210 kilograms of “Cloxacillin Caps BP 500 mg” raw materials costing Rs.827,873 imported in the preceding year had contained the Fiber particles, it had not been possible to utilize the above stock. Nevertheless, the Corporation had not made request from the supplier to reimburse the loss even by 07 February 2017 and after 08 months from the recognition of the loss, request had been made to the local agents to reimburse the loss and it had been turned down by the local agents. The local agent had informed that the relevant supplier company had liquidated the business activities. Although the Chairman of the



Corporation had expressed to the Audit on 20 June 2017 that a primary agreement had been reached with the supplier to recover the loss, steps had not been taken accordingly even by 13 July 2018.

7. Systems and Control

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.

Areas of Systems and Controls	Observations
(a) Non-current Assets	Failure in taking action to dispose of unusable assets.
(b) Stock Control	Not maintaining the optimum stock levels.
(c) Staff Administration	Making recruitments without obtaining the Treasury approval and not properly recording the arrival and departure.

Sgd./ H.M. GAMINI WIJESINGHE
 Auditor General

H.M. Gamini Wijesinghe
 Auditor General.

CHAIRMAN'S COMMENTS ON THE REPORT OF THE AUDITOR GENERAL FOR YEAR 2017

2. Financial Statements

2.1 Qualified opinion

2.2 Comments on financial statements

2.2.1 Sri Lanka Accounting Standards

(a) Sri Lanka Accounting Standards 1

Although the debit balance of the P.A.Y.E. account has been shown in financial statements under the trade and other payments, action will be taken to submit it in future financial statements correctly.

(b) Sri Lanka Accounting Standards 16

A survey board as well as a valuation board has been appointed under the guidance of the General Manageress of the Corporation to supervise the non current assets and the work has been expedited through those committees for non current assets, damaged and unsuitable to use and for annual review of the productive life time.

(c) Sri Lanka Accounting Standards 24

Action will be taken to disclose information on the key management personnel compensation in future financial statements of the Corporation.

2.2.2 Accounting policies

(a) Action will be taken to mention correctly in the future financial statements under the accounting policies a criterion applied when financial statements are prepared.

(b) Projected Unit Credit Actuarial Cost Method is applied by the Corporation when the liability of gratuity is adjusted to the current value and action will be taken to make a revelation in future financial statements in that regard.

2.2.3 Accounting shortcomings

The general procedure is that in case of a failure in quality of a stock it is returned to the Corporation. The relevant stocks have not been returned to the Corporation so far. Therefore, it cannot be accounted for as per the Audit Report.

2.3 Receivable and payable accounts

Action will be taken to account in 2018 an amount of Rs. 429,955 retained when payments were made to three suppliers as mentioned in the Audit Report.

2.4 Non compliance to laws, rules, regulations and management decisions

(a) Action will be taken by the Committees appointed by the General Manageress regarding proper disposal of the stocks and assets as mentioned in the Audit Report.

- (b) (i) The 6.a.m to 10.00 p.m shift is functioning in the institute to cater to the need of essential medicine in the government hospitals and the institution is located where public transport is not available. So bringing down the employees on time to the relevant shift is essential and under this situation the employees residing close to the institution are very important. Considering these situations, the transport allowance is paid according to the distance from the residence of the employees with the board approval.
- (ii) According to the letter (DMS/E4/10/490/2) issued on 09/03/2009 it has been mentioned that the Norms of the Production Incentives should be changed. Accordingly, the existing Norms were studied by a committee and a suggestion regarding the Production Incentive was referred to the Board of Directors with aim of encouraging production and on the timely need. Accordingly, the Board of Directors approved the suggestion and payments were made according to the approval.

3. Financial review

3.1 Financial results

All the matters mentioned regarding the financial results were considered.

3.2 Analytical financial review

- (a) Taken into consideration.
- (b) Taken into consideration.

4. Operational review

4.1 Performance

4.1.1 Performance review

The progress report was been prepared according to the action plan and submitted from the year 2017.

4.2 Management activities

- (a) According to the Cabinet paper referred by the Hon. Rajitha Senarathna, Minister of Health and Indegineous Medicine at the Cabinet meeting held on 09.05.2018 the approval was given for amendment by a gazette notification as mentioned in the main objectives of the State Pharmacautical Manufacturing Corporation .

As the repairs of the factory, carried out by JEICA, were not finished until the end of 2017 an agreement was entered again for another one year in December with the Indian Company.

(b) (i,ii and iii)

Letter of Demand has been sent through the lawyer against the local agent as per the advice of the CID. Accordingly, the local agent must be responsible in this regard.

(iv,v and vi)

A formal investigation is being conducted to identify the officials responsible to this incident by the emergency raid unit of the Ministry of Health and another investigation is being conducted by the Fraud Investigation Unit also.

- (c) Action will be taken to avoid those deficiencies in 2018.
- (d) During this period repairs of the factory were being carried out and the expected period to complete was extended. So, the portions relevant to the order of supply to the Medical Supplies Division were imported using the procurement procedure.
- Future plans are being made to use raw matetials.

4.3 Operational activities

- (a) Production activities were suspended for the JICA project at the end of 2017 and in the beginning of 2018. So, some planned raw materials were in excess. Plans have been made at present to make products using these raw materials. Further, relevant drugs to be supplied to the Medical Supplies Division were imported using procurement procedure.
- (b) The stock of 406 Kg had been destroyed by the rain and arrangements have been made to obtain the value from the Insurance institute.

(c)

Order No.	Drug	Quantity Ordered (m)	Quantity not supplied (m)	Amount Rs.	Reason not to supply
2017/SPM/N/R/P/00003	Amoxicillin Capsules BP 250mg	100	16.275	30,027,375.00	Order could not be completed due to non receipt of raw materials on time.
2017/SPM/N/R/P/00002	Theophylline S.R Tablets 125mg.	30	3.736	3,747,208.00	Non availability of raw materials.
2017/SPM/N/R/P/00009	Spironolactone Tablets USP 25mg	36	1.859	6,562,270.00	Non availability of raw materials
2017/SPM/A/R/P/00012	Gliclazide Tablets BP 40mg	34	6.1845	5,733,031.50	Non availability of raw materials
2017/SPM/N/R/P/00003	Amoxicillin Tablets USP 125mg.	8	1.428	1,565,088.00	Functioning of machines with low capacity due to reducing of storing facility.
2017/SPM/N/C/P/00010	Ascorbic Acid Tablets BP 100mg.	20	3.034	1,559,476.00	Non availability of raw materials.
2017/SPM/N/R/P/00005	Tolbutamide Tablets BP 500mg	5	1.271	2,045,039.00	Non availability of raw materials.
2017/SPM/N/R/P/00007	Ciprofloxacin Tablets USP 500mg	10	5.3865	18,874,296.00	Non availability of raw materials.
TOTAL			39.174	70,113,783.50	

4.4 Transactions of contentious nature

Rs. 595,000.00 was paid according to the approval of Board of Directors.

4.5 Losses identified

Chloroquine Phosphate BP is required to produce the medicine for Malaria disease and this medicine is not manufactured as Malaria is not prevailing at present.

Microcrystalline cellulose BP 200Kg has been destroyed by the rain and arrangements are being made to recover the loss from the Insurance institutes.

Erythrosine Red Lake ----P 27

This remains as expired raw material. Considered as general wastage taken place during manufacturing.

Polysorbate BP

This was not used due to the failure of the formula expected to be manufactured with this raw material.

Zinc stearate BP

This raw material could not be used due to unexpected failure of manufacturing caused by repairs of the factory.

4.6 Staff administration

(a) **Applications were called once to fill the vacancy of the post of Deputy General Manager (Marketing) and there were no qualified applicants.**

(b) and (c)

i **Formula and Research Executive**

Two graduates were recruited for formula development and research activities on the approval of the Board of Directors. At present they are under training as Technical Assistants.

ii **SPMC Media Co-ordinating Officer**

As the assistance of Media Co-ordinating Division of the Hon. Minister had to be obtained to promote the new products of our Co-operation, recruitment was made on contract basis subject to the approval of the Board of Directors.

iii **Programme Co-ordinating Officer**

Recruitment was made on the approval of the Board of Directors for programme co-ordinating of the newly started training school.

iv **Project Co-ordinator**

Recruitment was made on the approval of the Board of Directors for JICA and Joint Venture projects ‘

(d) Action was taken to complete the report of the interview board for the post of Deputy Director General (Human Resources).

This officer was a former senior officer in the Sri Lanka Navy matured with knowledge and discipline and dedicated to the Unity and sovereignty of the country during the period of war.

He was recruited implementing HE the President's concept of getting the service of the senior officials of the three forces who have been sent on retirement at the maximum retirement age of 55 to the upliftment of state institutions and many important duties including the formulation of the procedure of cruitment which is very semsitive task for the institution is among the duties assigned on him. Under these circumstances, considering the above, the Board of Directors decided that his service is required by the institution further and his service was extended to another 06 months.

5.0 Sustainable Development

5.1 **Achievement of the objectives of the sustainable development**

According to the United Nations Agenda 2030 on the sustainable development the parties interested on the task due to be performed by our institution are identified.

6.0 Accountability and good governance

6.1.1 **Procurement and contract procedure**

(a) The relevant procurement plan was formulated and submitted according to the specimen supplied by the Ministry. Quarterly time frame had also been supplied with that.

(b)

(i) The need of a Human Resources Training School in connection with drug manufacturing has been mentioned in

the page No. 32 of the corporate plan for 2017 – 2021 under Corporate Social Responsibility - CSR

Establishment of factories with the aim of expanding the drug manufacturing in Sri Lanka as per a Cabinet decision has been mentioned under Corporate Social Responsibility – CSR under Major Goal in Page No. 18 of the Corporate Plan for 2017 – 2021.

A necessity was arisen to start a new state of the art laboratory and pharma training school common test laboratory under Strength in the page 19 according to the Corporate Plan - SWOT Analysis.

A necessity was arisen to start a drug manufacturing training school at the end of 2016 and an advertisement was published in the Daily News dated 04.12.2016 calling applications. The first course was started on the 25th January with 24 students in the Vocational Training Center, Ratmalana under rented basis and one course was finished and the second course has been started. The rent paid to the Vocational Training Center, Ratmalana has been mentioned. Under these circumstances, a requirement was not arisen for preparing a project report.

- (ii) As this has been included in a CSR project according to our Corporate Plan a financial benefit and Return on Investment were not expected. Therefore, there is no necessity of appointing a special technical evaluation committee.

A drug manufacturer training school is not available in Sri Lanka at present and as there are no sufficient trained employees for recruitment the private drug manufacturing investors are not willing to establish factories. So establishment of a common laboratory to certify the quality of drugs manufactured by private sector was submitted according to our vision 2020. Otherwise, if there were no factories by discouraging the private manufacturer's quality drugs manufacturing at low prices in Sri Lanka could have been crippled.

According to the Drug Act of our country the doctors should prescribe medicine only by the medicinal name of the drug. At this juncture, certifying the quality of drugs manufactured in our country is essential. Our opinion is that establishment of a common laboratory close by the drug manufacturing factory will facilitate the manufacturing of high quality drugs.

- (iii) **Reasons to select the training school and common test laboratory from Horana and Bulathsinhala areas and for other factors are mentioned below.**

It has been proposed to construct about 31 factories jointly with the private sector in the near future related to Horana and Bulathsinhala areas as per the Joint venture project. So, it was decided to purchase a suitable land or a building to locate the training school and the common test laboratory.

1. The necessity was there to establish in a public place the proposed factories and the factories under construction in Horana.
2. As the basic requirements have been mentioned in the newspaper advertisement Standard Building Document is not needed for this purchase.
3. According to the newspaper advertisement seeking a land or a building in the area that we expected only 2 bidders had been responded. When it was considered, the building in the area we required had been used for a nursing home and considering the cost for converting the building for our purpose the cost and time for a new construction was taken into consideration.
4. The documents relevant to opening of bids have been attached in Annex 9

- (iv) As there were shortcomings regarding the ownership of the land in the title report prepared by a lawyer of the board of lawyers of the Corporation, arrangements were made to get a service of another lawyer to verify the accuracy the ownership in order to get a second opinion as establishment of the training school and common test laboratory was needed soon after obtaining this building.

Because this is a property that had been mortgaged to a state bank (Bank of Ceylon) if there is a problem regarding the ownership the bank does not keep the property. It was satisfied regarding this judgement and a clarification from the Legal Division of the Ministry of Health was not obtained.

Compliance certificate (COC) has been obtained (Annex 10)

As it was understood that a long period of time was needed for the purpose of obtaining structural reports from the two state institutions, structural reports were obtained from a Structural Engineer of the Consultation Company of the Corporation at present.

The purchase cannot be made discussing with the relevant bank branch as the purchase should be made following our tender procedure and the following issues are taken place when this building is obtained at the final auction.

- 1 As the building is sold at the highest bid at the public auction it cannot be purchased to the government estimated value.
- 2 If so, according to our vision 2020 upgrading of quality drugs manufacturing at low prices would have been delayed.

- (v) As the price has been decided by the government assessor considering the defects of the building and as we re-build the building after making repairs to cater to our requirement, the purchase had been made with our knowledge.

- (vi) The seller cannot get COC as the 3rd and 4th floors have not been completed. But due to the following facts there is no risk to get COC after it is converted to the training school and common test laboratory.

- 1 The building which we obtained has been utilized for a Nursing Home. This is most equal to our purpose and it is a special fact.
2. As the approval has been obtained for construction of the preliminary buildings such as X-Ray lab and Operation theatre used in a hospital and as laboratory instruments with low risk are used in our purpose there is no risk to get COC after converting. COC has already been obtained for 3rd and 4th floor.

(c)

- (i) A committee comprising with the following officials has been appointed as the bid opening committee as per the procedure followed up to now by the State Pharmaceutical Manufacturing Corporation in procurement.

1. Officials of the Internal Audit Division
2. Secretary of the Procurement Committee
3. A member of the Division where the relevant procurement is carried out.

The details of the persons involved in the procurement and quotations they submitted are noted by this committee and it is considered as the bid opening report of the State Pharmaceutical Manufacturing Corporation.

- (ii) Agreed. A formal agreement had not been entered in procurement of some items exceeding the value of Rs. 500,000.00 before also and only Performance Bond of 10% has been obtained. It is expected to follow the Government Procurement Guidelines in future procurement.

- (iii) As it was difficult to find out local suppliers with successful knowledge and full responsibility in procurement of machines like this and as effective procurement was required bids were called from 07 suppliers locally and those who were found in Yellow Pages.

For the Forklift the list of selected suppliers was submitted.

- (d) As spare parts needed to many machines used by the institution are not available in open market the spare parts have to be supplied from the original supplier himself.

As they do not like to enter into agreements we will try to enter into such agreements when purchases are done in future.

6.1.2 Shortcomings in contract administration

- (i) This agreement has been submitted to the Chairman to receive legal advice to cancel the agreement entered with the Consultation institute and later that agreement has been misplaced. Their service has been suspended after paying consultation fee up to the pilling contract according to a cancellation of agreement prepared by a lawyer of the Board of Lawyers of the Corporation.

Payments have been made only for the service obtained.

- (ii) Planning and purchasing division has been informed to follow the due procedure that should be followed when bids are opened. Consultation Company has delayed the preparation of the agreement with the relevant contract company.
- (iii) Contracts of filing could not be completed due to the changes that took place in the building plan.

6.1.3 Delayed projects

Four Storied Facility Building

Construction of the building was delayed due to the practical issues at the beginning and it took sometime to remove grounded supplies and previous base parts in the construction site.

Two Storied Steel structure warehouse

The construction of this building was delayed due to the non approval by the Urban Development Authority and change in the plan.

6.2 Tabling the Annual Reports

Cabinet approval has been received in order to present the annual reports for the year 2016 to the Parliament by May 2019.

6.3 Unsolved audit paragraphs

It is accepted that there had been a delay regarding informing to the supplier and action is being taken with the supplier to recover the loss.

Initial supplier has agreed to pay for the loss and action is being taken to recover that.

7.0 Systems & Controls

(a) Fixed assets

Action will be taken in future to perform activities promptly by a committee including the General Manager regarding effective disposal of fixed assets.

(b) Stocks

Repairs were done in the factory at this time and the period planned to complete such repairs was exceeded unexpectedly. Therefore, some raw materials remained excess of stocks.

We expect to observe these situations comprehensively and take necessary actions in future.

(c) Recruitment of Staff

Steps were taken in order to obtain the treasury approval for recruitments and recording the time of arrival and departure properly.

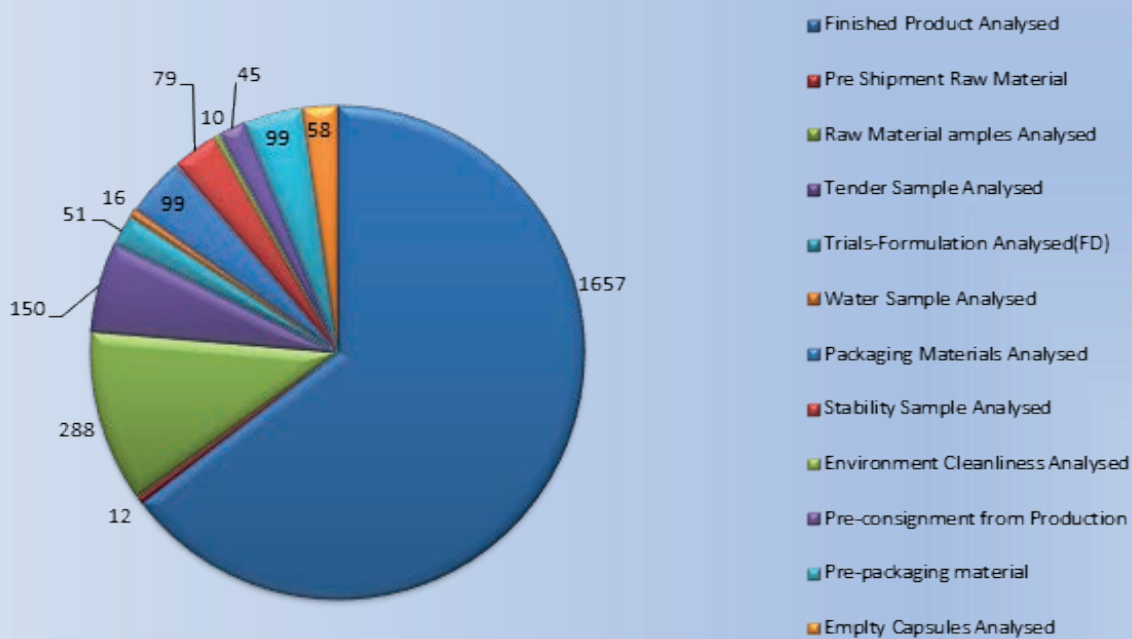
GRAPHICAL REVIEW

HUMAN RESOURCES

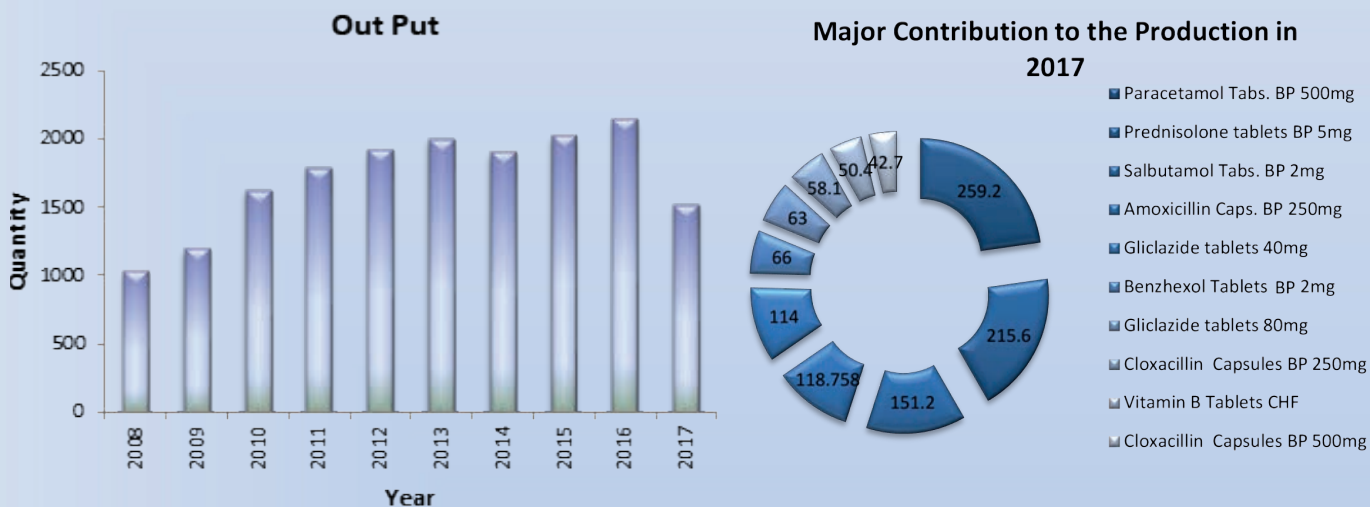


QUALITY CONTROL

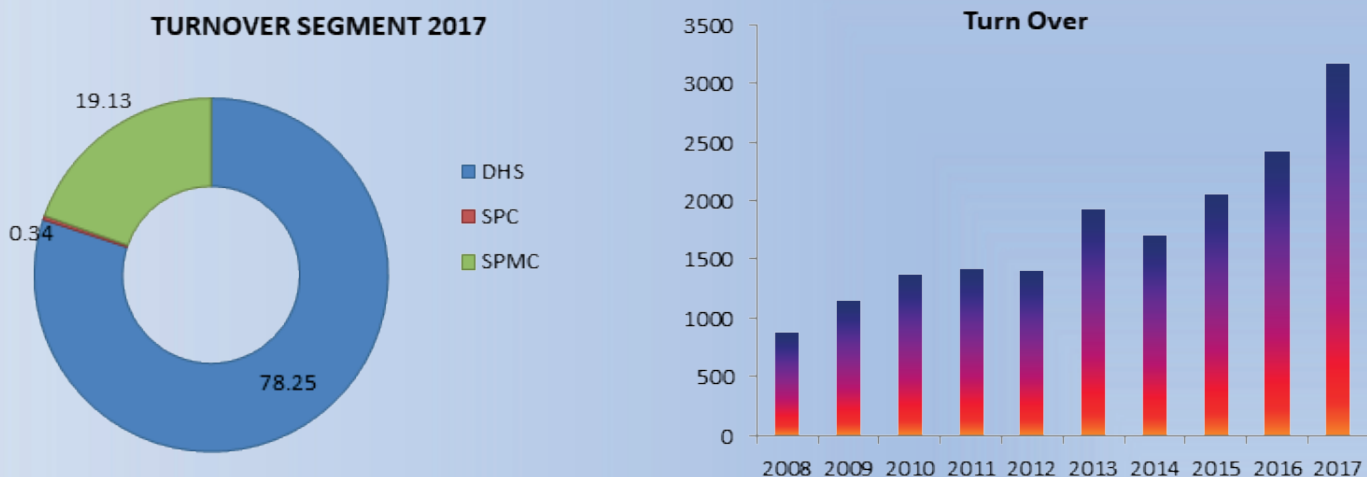
Analysis of Performance - 2017



PRODUCTION

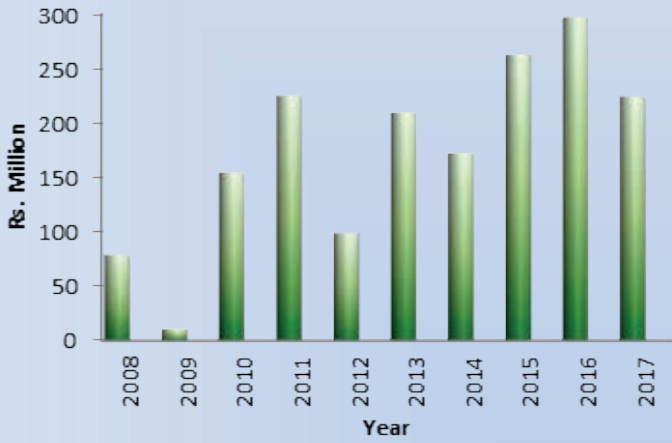


MARKETING

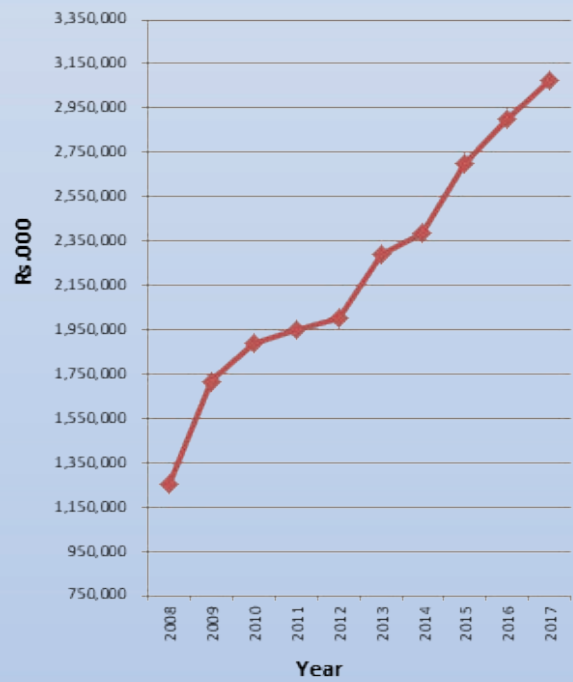


FINANCE

Net Profit/(Loss)

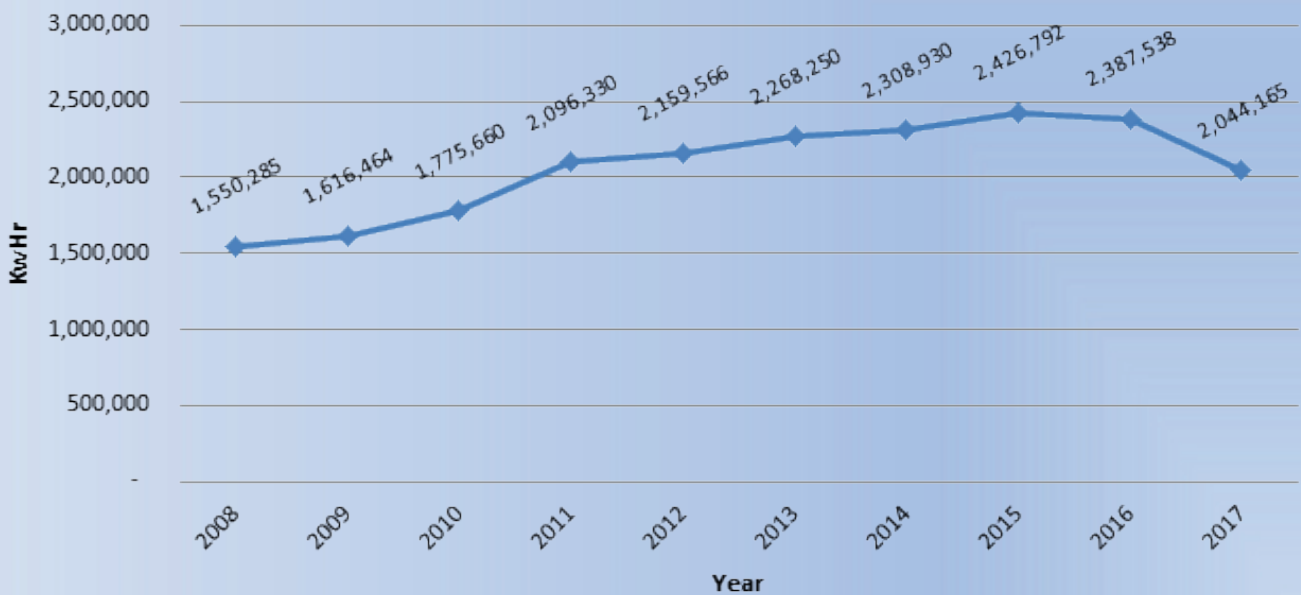


Total Assets



MAINTENANCE

Power Consumption



FINANCIAL HIGHLIGHTS FOR THE PAST 10 YEARS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Turnover	890,244	1,152,684	1,379,652	1,431,655	1,414,546	1,941,182	1,712,105	2,054,363	2,434,508	3,174,612
Cost of Sales	750,281	932,212	1,030,545	1,127,409	1,220,523	1,513,899	1,319,715	1,539,441	1,888,256	2,666,683
Gross Profit	139,963	220,472	349,107	304,246	194,023	427,283	392,391	514,921	546,252	507,928
Operational Profit	63,403	121,423	266,166	222,469	85,292	304,176	224,758	364,845	353,776	244,781
Administration Overhead	62,127	60,243	62,869	72,730	82,390	106,096	133,933	125,469	165,788	204,579
Interest Income	60,904	33,479	30,752	23,702	34,251	28,059	44,196	53,586	87,629	77,607
Net Profit Before Tax	120,572	151,827	292,317	244,792	117,136	329,968	266,481	414,501	441,164	321,982
Net Profit After Tax	78,372	98,688	154,538	193,029	98,561	209,154	183,848	262,323	296,646	223,907
Fixed Assets	408,129	815,342	914,716	864,779	804,305	762,641	780,718	762,560	798,657	802,775
Short Term Investment	265,893	201,529	243,264	331,779	210,691	429,896	913,443	1,027,388	1,175,754	926,461
Total Assets	1,251,026	1,718,461	1,887,430	1,945,347	2,003,258	2,294,113	2,386,449	2,700,885	2,902,284	3,073,471
No. of Employees	195	209	209	208	199	211	226	229	248	274
Total Assets = Net book value of total non current assets + total current assets										

ලියාපදිංචි කාර්යාලය

11, සර් ජෝන් කොතලාවල මාවත,
කදවල වත්ත,
රත්මලාන.

දුර: 2635353, 2637574, 2636966,
2636967 (ADSL)

ෆැක්ස් : 2634771, 2626621, 2623553
වි - කැපදල : spmclanka@slt.net.lk
වෙබ් අඩවිය : www.spmclanka.lk

සහායක

දුර : 2623238 (සාජු)
2635353, 2714771 (පොදු)

කළමනාකාර දායක
දුර : 2636368 (සාජු)
2635353, 2637574 (පොදු)

සාමාන්‍යාධිකාරී
දුර : 3153835 (සාජු)
2635353, 2637574 (පොදු)

නිෂ්පාදන දෙපාර්තමේන්තුව
නියෝජ්‍ය සාමාන්‍යාධිකාරී - නිෂ්පාදන
දුර : 2623521 (සාජු)

සැලසුම් හා ප්‍රසම්පාදන දෙපාර්තමේන්තුව
නියෝජ්‍ය සාමාන්‍යාධිකාරී
- සැලසුම් හා ප්‍රසම්පාදන
දුර: 2623298 (සාජු)

කළමනාකාරී - සැලසුම් හා ප්‍රසම්පාදන
දුර: 2637124 (සාජු)

අලෙවි දෙපාර්තමේන්තුව
අලෙවි කළමනාකාරී
දුර : 3163308 (සාජු)

තත්ව පාලන දෙපාර්තමේන්තුව
නියෝජ්‍ය සාමාන්‍යාධිකාරී - තත්ව පාලන
දුර : 5012945 (සාජු)

වට්ටෝරු, පර්යේෂණ හා සංවර්ධන දෙපාර්තමේන්තුව
නියෝජ්‍ය සාමාන්‍යාධිකාරී
- වට්ටෝරු, පර්යේෂණ හා සංවර්ධන
දුර : 5012950 (සාජු)

මූල්‍ය දෙපාර්තමේන්තුව
නියෝජ්‍ය සාමාන්‍යාධිකාරී - මූල්‍ය
දුර : 2626630 (සාජු)

මූල්‍ය කළමනාකරු
දුර : 2623276 (සාජු)

නඩත්තු දෙපාර්තමේන්තුව
නියෝජ්‍ය සාමාන්‍යාධිකාරී - ඉංජිනේරු
දුර : 2623246 (සාජු)

කළමනාකරු - ඉංජිනේරු
දුර : 2623239 (සාජු)

අභ්‍යන්තර විගණක දෙපාර්තමේන්තුව
අභ්‍යන්තර විගණක
දුර : 2626619 (සාජු)

මානව සම්පත් දෙපාර්තමේන්තුව
මානව සම්පත් කළමනාකාරී
දුර : 2636234 (සාජු)

පුනීල සමාජ සේවා අංශය

11, සේරු ජෝන් කොතලාවල මාවත,
කදවල වත්ත,
රත්මලාන

දුර: 2635353, 2637574 , 2636966 , 2636967
(ADSL)

ෆැක්ස් : 2634771, 2626621, 2623553
විද්‍යාල : spmclanka@slt.net.lk
වෙබ් : www.spmclanka.lk

තலைவர்

දුර : 2623238 (දුර)
2635353, 2714771 (පොදු)

මුද්‍රාපිටු ප්‍රකාශන
දුර : 2636368
2635353, 2637574 (පොදු)

පොදු මුද්‍රාපිටු

දුර : 3153835 (දුර)
2635353, 2637574 (පොදු)

නිෂ්පාදන නිලධාරී
නිෂ්පාදන පොදු මුද්‍රාපිටු
දුර : 2623521 (දුර)

නිලධාරී, කොළඹ, නිලධාරී, නිලධාරී
නිලධාරී, කොළඹ, නිලධාරී
මුද්‍රාපිටු
දුර : 2623298 (දුර)

නිලධාරී, කොළඹ, නිලධාරී
දුර : 2637124 (දුර)

නිෂ්පාදන නිලධාරී
නිෂ්පාදන නිලධාරී
දුර : 3163308 (දුර)

නිෂ්පාදන නිලධාරී
නිෂ්පාදන නිලධාරී
දුර : 5012945 (දුර)

නිෂ්පාදන නිලධාරී, නිෂ්පාදන නිලධාරී
නිෂ්පාදන නිලධාරී, නිෂ්පාදන නිලධාරී
නිෂ්පාදන නිලධාරී
දුර : 5012950 (දුර)

නිෂ්පාදන නිලධාරී
නිෂ්පාදන නිලධාරී
දුර : 2626630 (දුර)

නිෂ්පාදන නිලධාරී
දුර : 2623276 (දුර)

නිෂ්පාදන නිලධාරී,
නිෂ්පාදන නිලධාරී
දුර : 2623246 (දුර)

නිෂ්පාදන නිලධාරී
දුර : 2623239 (දුර)

නිෂ්පාදන නිලධාරී
නිෂ්පාදන නිලධාරී
දුර : 2626619 (දුර)

නිෂ්පාදන නිලධාරී
නිෂ්පාදන නිලධාරී
දුර : 2636234 (දුර)

Registered Office

11, Sir John Kotelawala Mawatha,
Kandawala Estate,
Rathmalana.

Tel: 2635353 , 2637574 , 2636966 , 2636967(ADSL)

Fax : 2634771,2626621,2623553

email : spmclanka@slt.net.lk

Web : www.spmclanka.lk

Chairman

Tel : 2623238 (Direct)
2635353, 2714771 (General)

Managing Director

Tel : 2636368 (Direct)
2635353, 2637574 (General)

General Manager

Tel : 3153835 (Direct)
2635353, 2637574 (General)

**Production Dept.
DGM Production**

Tel : 2623521 (Direct)

**Planning & Procurement Dept.
DGM Planning & Procurement**

Tel : 2623298 (Direct)

Manager Planning & Procurement

Tel : 2637124 (Direct)

**Marketing Dept.
Manager Marketing**

Tel : 3163308 (Direct)

**Quality Control Dept.
DGM Quality Control**

Tel : 5012945 (Direct)

**Formulation, Research & Development Dept.
DGM Formulation, Research & Development**

Tel : 5012950 (Direct)

**Finance Dept.
DGM Finance**

Tel : 2626630 (Direct)

Finance Manager

Tel : 2623276 (Direct)

**Maintenance Dept.
DGM Engineering**

Tel : 2623246 (Direct)

Manager Engineering

Tel : 2623239 (Direct)

**Internal Audit Dept.
Internal Auditor**

Tel : 2626619 (Direct)

**Human Resources Dept.
Manager Human Resources**

Tel : 2636234 (Direct)

