National Dangerous Drugs Control Board - 2015

The audit of financial statements of the National Dangerous Drugs Control Board for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 and the statement of 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 information 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 12(4) of the National Dangerous Drugs Control Board Act, No. 11 of 1984. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2) (c) of the Finance Act, appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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 judgement, 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 Board'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 Board'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 the financial statements. Sub - sections (3) and (4) of the 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 National Dangerous Drugs Control Board as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

Sri Lanka Public Sector Accounting Standard 07

The following observations are made

(a) When the item of asset and associated future benefits or service viability is in existence, those should be separately recognized. Nevertheless, action had not been taken accordingly in relation to the lands of the Board.

(b) As the useful life of the non-current assets had not been reviewed annually, fixed assets were further being utilized in spite of fully depreciated. Accordingly, action had not been taken to revise the estimated error in accordance with the Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Policies

The following observations are made.

(a) In terms of the Accounting Policy 2.1 specified in the financial statements, although it has been stated that the assets have been shown at cost or the assessed value, disclosures had not been made on the classes of assets recognized at cost or the assessed value.

(b) Without being identified the lands and buildings separately according to the Accounting Policy 2.2 stated in the financial statements, depreciation at 5 per cent had been made for the lands.

2.2.3 Accounting Deficiencies

The expenditure aggregating to Rs.1,136,503 payable as at the end of the year 2015 had not been brought to account as the accrued expenditure.

2.2.4 Accounts Receivable and Payable

The following observations are made.

(a) The age analysis relating to the deposits totalling Rs.356,813 had not been made available to audit and out of which, the receipts relating to the deposits valued at Rs.295,313 made in 18 outside entities were not in the possession of the Board, thus indicating that the possible risk on encashment of such deposits.

(b) According to the financial statements of the year under review,16 sundry advances totalling Rs.1,782,060 that remained unrecovered for more than a period of 10 years had not been recovered.

2.2.5 Lack of Evidence for audit

The title certificates in respect of the land valued at Rs.2,971,405 situated at Pitipana, Homagama and the bills relating to the purchase of computers valued at Rs.1,425,000 had not been furnished to audit.

2.2.6 Unexplained Differences

According to the financial statements, there was a difference of Rs.15,251,102 between the fixed assets and the total balances of the schedules.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions etc.

The following instances of non-compliances with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations etc.	**Non – compliance**
(a) Dangerous Drugs Control Board Act, No.11 of 1984	The attendance of the representatives nominated by the Inspector General of Police, the Director General of Health Services and Sri Lanka Customs who were the members of the Board of Governance of the Board had been at less than 30 per cent.
(b) Section 4(3) of the Drug Dependent Persons (Treatment and Rehabilitation) Act, No 54 of 2007.	Periodical reports required to be furnished by the Director of Treatment and Rehabilitation Centres in relating to successfulness of the treatments performed by the private treatment Centres had not been furnished.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 109 (1)(b)	A copy of every Order of Write Off relating to the vehicle accidents had not been furnished to the Auditor General.

(ii) Financial Regulation 371 (2)(c)	A period ranging from 14 days to 261 days had been taken to settle the advances totalling Rs.476,325 granted to the officers of the Board in 41 instances during the year under review.
(iii) Financial Regulation 751	The receipts and the issues of all the goods had not been properly included in the stock registers.

3 Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Board for the year under review had resulted in a deficit of Rs.14,110,836 as compared with the corresponding deficit of Rs.15,906,625 for the preceding year, thus indicating an improvement of Rs.1,795,789 in the financial results. Although the operating expenses had increased by Rs.29,658,161, the increase in the Government contribution and other income by Rs.31,453,952 had mainly attributed to this increase in the financial results.

In analyzing the financial results of the preceding years, a continuous financial deficit was recarded. When taking into consideration the employees' remuneration and the depreciation for the non-current assets, the contribution of the Board had ceaselessly increased from the year 2011 and the contribution from the year 2013 to the year 2015 had been Rs.67,539,371, Rs.76,486,442 and Rs.110,609,846 respectively. Accordingly, higher contribution was shown in the year 2015, whereas that level had not been maintained in the preceding years.

3.2. Working Capital Management

A sum totalling Rs.6,309,030 of 6 bank current accounts as at 31 December 2015 had remained dormant for a number of years without being utilized for an effective purpose.

4. Operating Review

4.1 Performance

The objectives of the Dangerous Drugs Control Board Act, No.11 of 1984 are as follows.

- To formulate and review a national policy relating to the prevention and control of the abuse of dangerous drugs and to advise and make recommendations to the Minister on such policy.
- To receive donations and grants from local and foreign sources for the purpose of exercising the powers of the Board.
- To co-ordinate the activities of agencies engaged in the prevention and control of dangerous drugs.

- To promote treatment and rehabilitation measures for drug dependent persons and conduct national drug abuse and preventive educational programmes for children and adults.

- To conduct and undertake research studies into the pre-valances, a etiology and legal, medical, social, cultural and economic implications of the abuse of dangerous drugs and maintain liaison with national, regional and international organizations and agencies involved in drug control activities.

The following observations are made on the achievement of the above objectives.

(a) The follow-up action carried out by the respective rehabilitation centre and the outreach officers on the drug dependent persons who leave the rehabilitation centers after entering for the treatments revealed that, there was a situation of inclining most of the clients back to the abuse of drugs, returning to the same centre for rehabilitation and the absence of the information on them.

(b) The examination of the post care report of the drug dependent persons bearing No.10060 entered on 12 September 2015 revealed that, the respective person had not been directed at least for one counselling service despite the lapse of 2 months and 2 weeks from his residing.

4.2 Management Activities

The treatment centre at Thalangama is being operated in a building belonging to the Ministry of Health without the payment of rent and disclosure had not been made on the building and the land in the financial statements.

4.3 Operating Activities

The following observations are made.

(a) Although the sum totalling Rs.5,074,427 in respect of the purchase of a Generator, office equipment, household equipment and the computers had been entirely settled, it had been stated as a part payment in the financial statements. The Chairman had informed that as these goods had not been received by the Board, they could not be depreciated and as such these payments had been stated as the part payments.

(b) Two hundred and seventy two persons had entered for the residential treatments in the Service Centre from January to 25 August 2015, out of which 43 persons had left the center without permission.

(c) Out of 146 persons who resided without the payment in the year 2015, 45 persons had re-entered for the treatments and it represented 30 per cent as a percentage.

(d) According to the number of counselling services conducted for the drug dependent persons by the Counsellors and the Assistant Counsellors during the year 2015 in the Thalangama Centre, the number of counselling services conducted by those officers had been around 8 per month and it was observed to be inadequate in audit.

4.4 Idle and Underutilized Assets

The Board had not prepared a proper plan on the utilization of land 40 perches in extent situated at Homagama for an effective purpose that had been purchased without any specific purpose in the year 2014 at a cost of Rs.2,971,405 .

4.5 Personnel Administration

The post of Assistant Director of Finance had fallen vacant since the year 2011.

5. Accountability and Good Governance

5.1 Internal Audit

A separate Internal Audit Unit had not been established for the Board and the audit activities had been carried out by the Internal Audit Division of the line Ministry. However, neither the Internal Audit Program nor the internal audit reports had been submitted to the Auditor General.

5.2 Procurement Plan

It was observed in audit that , as expenses had been incurred less than Rs.40,961,000 or 81 per cent of the estimated value in the Procurement Plan, the Procurement Plan had not been prepared realistically.

5.3 Budgetary Control

The following observations are made

(a) When comparing the budgeted income and expenditure with the actuals for the year under review, variances ranging from 96 per cent to 783 per cent relating to 29 items were observed , thus indicating that the budget had not been made use of an effective instrument of management control.

(b) A sum of Rs.12,844,147 had been spent during the year under review in respect of 12 items of expenditure for which budget estimates had not been prepared.

6. Systems and Controls

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

Area of System and Control	Observations
(a) Accounting	Failure to prepare financial statements and books of accounts properly. Failure to obtain approval for the journal entries.
(b) Utilization of Rehabilitation Centers	Failure to provide adequate service for the persons who arrive at the centres.
(c) Control over Assets	Failure to maintain the Registers of Fixed Assets properly.
(d) Stock and Inventory Control	Failure to maintain the inventories properly.
(e) Financial Management	Maintenance of high favourable balances in the dormant bank accounts and making payments before the delivery of goods.
(f) Human Resources Management	Failure to take action to fill the vacancies in the approved cadre.