

## **National Dangerous Drugs Control Board – 2016**

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The audit of financial statements of the National Dangerous Drugs Control Board for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 and the statement of income, statement of changes in net assets 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**

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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**

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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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 2016 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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##### **Sri Lanka Public Sector Accounting Standard 07**

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The following observations are made

- (a) When the item of asset and associated future benefits or service viability is in existence, those should be recognized as assets in terms of Paragraph 14 of the Standard. Nevertheless, the value of two lands being used by the Board had not been assessed and brought to account.
- (b) The following disclosures in accordance with the Paragraph 87 of the Standard had not been made in the financial statements of the year under review with regard to the lands of the Board.
  - The existence and amounts of restrictions on title, and property, plant and equipment pledged as securities for liabilities.
  - The amount of contractual commitments for the acquisition of property, plant and equipment.
- (c) As the useful life of the non-current assets had not been reviewed annually, fixed assets costing Rs.39,282,116 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 Deficiencies**

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The following observations are made.

- (a) As provisions had not been sufficiently made for the accrued expenditure of the year under review, payments had been made exceeding the accrued expenditure by Rs.402,815 in the year 2017.
- (b) In spite of giving a standing order amounting to Rs.1,045,992 to the bank for incurring expenditure relating to a foreign tour in December of the year under review, that amount had been accounted as accrued expenditure.
- (c) Even though the amount of depreciation of the fixed assets relating to the year under review was Rs.22,616,678 according to the Ledger, it had been stated as Rs.22,639,478 according to the income statement and the schedules of the fixed assets. Accordingly, owing to two values had been shown, the uniformity of the financial statements was questionable.

### **2.2.3 Unexplained Differences**

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The following observations are made.

- (a) Between the value of the assets shown in the accounts of the end of the year 2016 and the value indicated in the detailed schedules presented, a sum of Rs.497,071 had been overstated relating to four categories of assets and Rs.510,533 had been understated relating to three categories of assets.
- (b) A difference of Rs.6,685,931 was observed between the depreciation value indicated in the final account of the year 2016 and the value indicated in the schedules relating to the computation of depreciation of the Board.
- (d) A difference amounting to Rs.1,928,853 relating to five categories of assets was observed between the register of assets and the Ledger.
- (e) Even though a sum of Rs.9,870,610 had been stated as receivable distress loan and special advances in the balance sheet, according to the schedule thereof (Note No.17), that balance totalled to Rs.9,858,175. Hence, a difference of Rs.12,435 was observed.

### **2.2.4 Suspense Account**

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The balance of the Suspense Account amounting to Rs.480,900 shown in the financial statements from the preceding year had not been settled even in the year under review.

### 2.2.5 Lack of Evidence for audit

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The evidence indicated against the following item of accounts had not been made available to audit.

Item -----	Value ----- (Rs.)	Evidence not made available -----
(a) Land	11,067,487	Deeds and Lease Agreements
(b) Chemical Stock	2,535,326	Stocks Verification Reports

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) The advance balances that remained unrecovered for more than a period of 10 years totalled Rs.1,782,060 and it could not be specifically identified the years from which those balances had continued to exist.
- (b) As the bills relating to deposits totalling Rs.184,313 deposited in 11 external institutions were not available in the Board, there was a risk on the recovery of those deposited money.

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

Reference to Laws, Rules, Regulations etc. -----	Non – compliance -----
(a) 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.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 104 (3)	Reports on vehicle accidents had not been furnished to the Auditor General.
(ii) Financial Regulation 109(1)(b)	A losses caused in relation to the vehicle accidents had not been reported to the Auditor General.
(iii) Financial Regulation 569 Class III	Even though the deposits of miscellaneous characters should be entered in a general account titled “Sundry Deposit”, the Board had not maintained such account in respect of deposits valued at Rs.506,813.

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| (vi) Financial Regulation 751                        | Although all stores received should be entered in the inventory immediately, stores valued at Rs.888,995 purchase by the Board as at 31 December 2016 had not been entered in the inventories. |
| (v) Financial Regulation 754                         | Even though inventory books must be balanced at the end of each financial year, action had not been taken accordingly.   |
| (c) Treasury Circular No.842 dated 09 December 1978. | A register had not been maintained in respect of the assets valued at Rs.74 million.   |

### **3 Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Board for the year under review had resulted in a deficit of Rs.37,183,014 as compared with the corresponding deficit of Rs. 14,110,836 for the preceding year, thus indicating an improvement of Rs.23,072,178 in the financial results of the year under review as compared with the preceding year. The increase in the operating expenses by Rs.69,217,174 had mainly attributed to this increase in the deficit.

In analyzing the financial results of the year under review and four preceding years, a continuous financial deficit was observed and it was Rs.15,013,481 in the year 2012 and that deficit was Rs.37,183,014 by the end of the year under review. When readjusting the employees' remuneration and the depreciation for the non-current assets to the financial results, the contribution of the Board amounting to Rs.36,922,418 in the year 2012 had continuously increased up to Rs.81,587,124 by the end of the year under review.

### **4. Operating Review**

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#### **4.1 Performance**

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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, an 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 performance of the National Narcotic Laboratory relating to the achievement of the above objectives as at 31 December 2016.

No.		<u>As at 31 December 2016</u>		
		<u>Expected Target</u>	<u>Target Achieved</u>	<u>Percentage %</u>
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1.	The analysis conducted for the recognition of the relationship between the price and the purity of the Street Heroin and the analysis conducted to the effect that new adulterants are contained in the Street Heroin.	360	133	36.9
2.	(i) Analysis of additional food samples.	-	06	-
	(ii) The biological sample analysis conducted to the effect that metabolism materials are contained in the steroid drugs used in sports.	-	01	-
3.	Analysis of Alcohol samples.	-	67	-
4.	The biological sample analysis conducted to the effect that metabolism materials are contained in the aphrodisiacs and psychotropic.			
	Number of samples	180	63	35.0
	Number of tests	-	121	-
5.	Number of E-Education Programmes offered by the United Nations Office on Drugs and Crimes.	48	20	41.7
	Number of Participants.	-	123	-

6.	(i)	Preparation of field inspection sets for the low enforcement institutions for identifying aphrodisiacs and psychotropic.	60	07	11.7
	(ii)	Providing required scientific services for the judiciary proceedings.	-	01	-
	(iii)	Providing required technical assistance for the Sri Lanka Customs.	-	-	-
7.		Research Publications.	-	01	-
8.		Maintenance of the tests conducted by the laboratory in compliance with the standards.		Results of the first round ,2016 are scheduled to be issued.	100

The following observations are made.

- (a) Out of 8 performance fields, targeted number of samples had not been stated relating to the fields of analysis of additional food production samples, biological sample analysis conducted to the effect that metabolism materials are contained in the steroid drugs used in sports, analysis of alcohol samples, preparation of field inspection sets for the low enforcement institutions for identifying aphrodisiacs and psychotropic, providing required scientific services for the judiciary proceedings, providing required technical assistance for the Sri Lanka Customs and as such, the progress of the performance could not be established in audit. Further, performance of 4 fields remained less than 50 per cent.
- (b) It had been stated that results of the test which demonstrates the accuracy of the maintenance of the tests conducted by the Laboratory in accordance with the standardization are scheduled to be issued. Nevertheless, the performance thereof had been stated as 100 per cent.

#### 4.2 Management Activities

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Although the ad-hoc imprest should be settled immediately after the completion of the relevant activity, a duration from 14 days to 141 days had been taken to settle the advances and advance amounting to Rs.78,850 had not been settled even by 15 March 2017. Further, there were instances where the expenses had been made less than 50 per cent of the advances granted and advances of Rs. 107,595 had been retained in hand for a period from 02 days to 141 days and thereafter it had been settled.

### **4.3 Operating Activities**

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The following observations are made.

- (a) Although plans had been drawn to purchase stationary for the year 2016 in February 2016, stationary valued at Rs.2,068,605 had been purchased in November 2016. Accordingly, estimates for the stationary had been prepared without need.
- (b) In the computation of the stock of the National Narcotic Laboratory by the Government Analyst, value of 13 chemicals had been overstated by Rs.89,343 and value of 9 chemicals had been understated by Rs.45,888 in the Stock Record.
- (c) The National Dangerous Drugs Control Board had spent Rs.4,823,223 for expenditure on foreign tours in the year 2016 and out of that, a sum of Rs. 3,067,602 or 64 per cent had been spent only for the expenditure of the Chairman. This total expenditure is an increase of 77 per cent as compared with the year 2015.
- (d) In addition to the above expenses, without explaining the objectives of the UNDCP 1995 Project to the Audit, a sum of Rs.1,957,830 had been spent for the foreign tours of the Director General out of the funds of the above project.

### **4.4 Underutilization of Funds**

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The balances totalling Rs.9,330,322 relating to 06 bank current accounts had been retained idle in banks accounts of the Board without being utilized for any purpose from 05 months to 12 months by the end of the year under review.

### **4.5 Idle and Underutilized Assets**

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Even though a land, 40 perches in extent situated in Homagama area had been purchased by spending Rs.2,971,405 on 30 April 2014, it had not been used for any productive purpose even up to the end of the year under review.

### **4.6 Uneconomic Transactions**

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Out of Rs.12,720,000 granted to the Board by the Treasury for the conduct of the Meeting of Heads of National Drug Law Enforcement Agencies (HONLEA) for Asia and the Pacific at the Bandaranaike International Memorial Conference Hall on 20 June 2016, a sum of Rs.1,068,726 had been spent by the Minister of Law and Order and Southern Development for participating in the United Nations Special General Meeting held in America.

### **4.7 Utilization of the Resources of Other Institutions**

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The Prevention Treatment and Rehabilitation Centre, Thalangama was being maintained in a building, the lawful ownership of which held by the Ministry of Health and the agreement thereon had come to end on 01 June 1993, whereas it had not been renewed even by 15 March 2017.



#### 4.8 Personnel Administration

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The post of Internal Auditor had fallen vacant from the commencement of the Institute, whereas action had not been taken to fill that vacancy.

### 5. Accountability and Good Governance

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#### 5.1 Procurement Plan

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Even though expected procurement activities at least for a period of 03 years should be listed in the Procurement Plan in terms of Section 4.2.1 (b) and (e) of the Government Procurement Guidelines, 2006, the Procurement Plan prepared by the Board had been limited for a period of one year and it had not been updated.

### 6. Systems and Controls

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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.

<b>Area of System and Control</b>	<b>Observations</b>
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(a) Accounting	(i) Failure to prepare financial statements and books of accounts properly.  (ii) Failure to obtain approval for the journal entries.
(b) Control over Assets	Failure to maintain the Register of Fixed Assets properly.
(c) Financial Management	(i) Existence of dormant bank accounts.  (ii) Making payments before the receipt of goods.
(d) Human Resources Management	Failure to take action to fill the vacancies existed in the approved cadre.
(e) Control over Expenditure	Fulfilment of activities not planned.