

National Dangerous Drugs Control Board – 2017

The audit of financial statements of the National Dangerous Drugs Control Board for the year ended 31 December 2017 comprising the Balance sheet as at 31 December 2017 and the statement of financial performance, 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. A detailed report in terms of section 13(7)(a) of the Finance Act was issued to the chairman of the Board on 28 June 2018.

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 1000-1800). 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 misstatements 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 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 National Dangerous Drugs Control Board as at 31 December 2017 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

(a) Sri Lanka Public Sector Accounting Standard – 01

Description of the nature and purpose of net assets/ reserves amounting to Rs.90,687,716 shown in the statement of financial position as at 31 December 2017 had not been disclosed in the financial statements in terms of paragraph 95(c) of the Standard.

(b) Sri Lanka Public Sector Accounting Standard – 07

If a class of property, plant and equipment is stated at revalued amounts, the effective date of the revaluation, whether an independent valuer was involved, the methods and significant assumptions applied in estimating the assets fair values should be disclosed in terms of paragraph 90 of the standard. However, the Board had stated motor vehicles at revalued amount in the financial statements but necessary disclosures had not been made relating thereto.

2.2 Accounting Policies

Stocks should be measured at the lower of cost and net realizable value, in terms of paragraph 15 of the Sri Lanka Accounting Standard 9, but the Board had followed a policy to recognize stock at cost.

2.2.3 Unexplained Differences

The following observations are made.

- (a) According to the Balance Sheet, the total balances of distress loans and festival advances amounted to Rs.8,813,971 whereas according to the schedule presented to audit, along with the financial statements, the total balances amounted to Rs.8,801,536. According a difference of Rs.12,435 was observed.
- (b) Even though the balance of 51 types of statimary as at 31 December 2017 per the stock book amounted to Rs.834,186 this balance as per the physical verification report amounted to Rs.799,192 and as such an unexplained difference of Rs.34,994 was observed.

2.2.4 Suspense Accounts

A balance of Rs.480,900 was shown in the suspense account as at the end of the year under review and action had not been taken to settle it since the period of more than 4 years.

2.2.5 Lack of evidence for audit

Evidence shown against the following items of accounts was not made available for audit.

<u>Item</u>	<u>Value</u> (Rs.)	<u>Evidence not made available</u>
(a) Expenditure on training programs	113,100	Evidence to ensure the participation of 237 officers in the training programs conducted in the area of Polonnaruwa, Galgamuwa and Anuradhapura.
(b) Expenditure on short Rehabilitation camp project	1,224,385	Attendance Register of clients participated in the Moratuwa and Ruwanwella camps.
(c) Sundry deposits	36,238	Age analysis

2.3 Accounts Receivable and Payable

Advance balances totalling Rs.1,782,060 shown in the financial statements as at 31 December 2017 had remained unrecovered for more than 20 years.

2.4 Non-compliances with laws, rules, regulations and management decisions

The following non-compliances with laws, rules and regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations, etc.

Non-compliances

(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 571

Action in terms of Financial Regulations had not been taken in respect of deposits totalling Rs.181,800 lapsed for more than 5 years after being deposited.

(b) Section (c) of the Public Finance Circular No.03/2015 of 14 July 2015

Advances should be settled immediately after the completion of the purpose for which they were taken. However, advances of Rs.47,800 given in the year under review had been retained in hand for periods from 7 days to 34 days and settled without incurring any expenditure for the relevant purpose.

(c) Government Procurement Guidelines – 2006

(i) Guideline 2.8.1(b) of the amendment dated 08 August 2012

A member with expertise Knowledge in the subject matter had not been appointed to the Technical Evaluation Committee for the purchase of fax machines, UPS and Photocopiers valued at Rs.338,215 in the year under review.

(ii) Guideline 7.12.2(a) and (b)

Even though the Technical Evaluation Committee had decided to purchase colour computer printers and digital cameras from the supplier, who was only one bidder who had submitted bids, attention had not been paid for the life time cost such as maintenance servicing, warranty period, discount etc.

(iii) Guideline 2.5.1 (f)

Without getting the approval of the Procurement Committee, by presenting the Technical Evaluation Committee report there to, a colour printer valued at Rs.63,000 had been purchased.

(iv) Guideline 8.12.3 (a), (b) and (c)

Before making payments for the goods supplied, the officer in charge should issue a certificate, stating that such goods are conformity with specifications and other agreed conditions, the quantity of goods supplied is in compliance with the conditions of contract, the warranty certificate, normally supplied for the goods, Security certificates, manuals, as specially agreed had been duly supplied. Without doing so, a sum of Rs.982,605 had been paid for the purchase of computers and fax machines.

- (d) Treasury Circular No.842 of 09 December 1978 Even though a register of fixed assets for the value of Rs.83.3 million had been maintained, it had not been updated.

2.5 Transactions not supported by adequate authority

Even though the approval had been granted for procurements made in excess of the procurement plan amounting to Rs.4,181,946 at the Board of Directors' meeting No.178/2017 held on 31 October 2017, subject to the approval of the Treasury, a payment of Rs.348,930 had been made without being obtained the Treasury approval.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results for the year under review had been a deficit of Rs.34,080,828 as compared with the deficit of Rs.37,183,014 for the preceding year, thus the deficit for the year had decreased by Rs.3,102,186 as compared with the preceding year. Even though the income of the year under review had decreased by Rs.6,918,804 as compared with the previous year, the decrease of expenditure by Rs.10,020,989 had manly caused to this decrease.

In analysing the financial results of the year under review and the preceding 4 years, the deficit of Rs.6,446,755 in the year 2013, had continuously deteriorated up to Rs.34,080,828 by the end of the year under review. However, the contribution of the Board amounting to Rs.67,539,371 in the year 2013 had continuously improved up to Rs.130,655,747 by the end of the year under review, after being re-adjusted the employees remuneration and depreciation on non-current assets to the financial results.

4. Operating Review

4.1 Performance

4.1.1 Operations and Review

The following observations are made in respect of the performance of 9 fields in the National Narcotic Laboratory which is a Division of the Board relating to the achievement of objectives of the Board, as at 31 December 2017.

- (a) The analysis conducted to ensure whether street heroin contains new adulterants had been at a Low level as 50 per cent and the preparation of E-education programmes given by the Narcotic and crime prevention office and the preparation of sets of field inspections to be given to the law enforcement institutions for the identification of aphrodisiacs and psychotropic had been observed as very low as 10 per cent.

- (b) Even though it was stated that the number of analysis of auxiliary food product samples and alcohol samples performed in the year 2017 amounted to 13 and 74 respectively, the progress thereof could not be ensured in audit as the targeted number of sample analysis had not been stated.
- (c) Functions such as the analysis of biological samples conducted to ensure whether steroid drugs used in sports, contains metabolism materials, providing and the provision of technical assistance to Sri Lanka Customs had not been performed in the year 2017.
- (d) Stating that the result of the test indicating the accuracy of results was about to due and the performance there of had been stated as 100 per cent.

4.2 Management Activities

The following observations are made.

- (a) Even though in recruiting an officer for a post, the relevant examination certificates should be sent to the relevant institutions and get them confirmed for the checking of basic qualification of that officer, it had not been so done and the certified copies of examination certificates of 5 officers were not available in their personal files.
- (b) Even though the promotions should be given to officers by considering the satisfactory service period and after getting the examination certificates confirmed, promotions had been given to 4 officers without paying attention thereon.
- (c) According to the approved scheme of recruitments, the Efficiency Bar Examination should be passed within 3 years after being promoted to the post of Instructor Assistant grade II. Without being held the Efficiency Bar Examination by the Board, 10 officers who had been recruited to the post of Instructor Assistant in the year 2013 had been promoted to the post of Instructor.
- (d) Out of 182 varieties of chemicals existed as per stock books in the National Narcotic Laboratory, 12 varieties of chemicals valued at Rs.225,624 had expired and 58 varieties of chemicals or 32 per cent had existed as non-moving stock.
- (e) Replies to 2 audit queries issued to the Board in the year under review, relating to the value of Rs.8,291,965 had not sent even up to the date of this report.
- (f) Accounting to the cash book maintained by the Board for recurrent expenditure, the cash balance in hand in 8 months of the year under review had ranged from Rs. 1 million to Rs. 4 million and attention had not been paid to utilize this money to fulfilling the objectives of the Board or to use in an effective investment.

- (g) Instead of utilizing the project funds for fulfilling the objectives of the project a sum of Rs.1,045,914 from the UNDCP project funds and Rs.742,547 from the NDDCB RASH 71 project funds had been spent for foreign trips of the Director General of the Board, extraneous to the objectives of projects.
- (h) As the contributions payable to the Employees Trust Fund on behalf of officers of the Board had not been correctly computed, a fine of Rs.146,818 had to be paid. Due to non-payment of contributions to the Employees Provident Fund in respect of 5 employees, a surcharge of Rs.102,785 had to be paid.

4.3 Operating Activities

The following observations are made.

- (a) Out of the stationary stock purchased in considering the requirement for the ensuing 5 months valued at Rs.394,418, 81 per cent or Rs.318,602 worth of stationary stock had remained unissued.
- (b) Six camps had been conducted for the rehabilitation of drug-addicts in the year under review. The medical service had been obtained for 3 of these camps from a medical officer who had not registered or temporary registered in the Medical Council and paid a sum of Rs.28,500 therefor.

4.4 Idle and under utilized assets

The following observations are made.

- (a) The land at Homagama, 40 perches in extent costing Rs.2,971,405 belonged to the Board had been idled without being utilized for any effective purpose.
- (b) As money had not been received from the Department of Treasury operations up to March 2018, for the payment of furniture valued at Rs.1,266,768 brought in December 2017, those goods had been kept un protected here and there in the Board premises incautiously without being used.
- (c) Equipment, furniture and other goods valued at Rs.2,220,197 of the drug addicts rehabilitation camp project which had been suspended at the end of March 2017 had been kept idle even up to the end of the year under review.

4.5 Uneconomic Transactions

Even though a sum of Rs.1,588,213 had been spent in respect of newspaper advertisements published for the filling of vacancies in the approved cadre, after being revised the Scheme of Recruitment of the Board on 11 January 2017, 83 vacancies in 24 posts as at 31 December 2017 had not been filled.

5. Sustainable Development

5.1 Reaching sustainable Development Goals

Every public entity should act in accordance with the year 2030 agenda of the United Nations on Sustainable Development and the National Dangerous Drugs Control Board was aware about how to act in respect of functions coming under the scope of the Board. The following observations are made in this connection.

- (a) Even though it was stated that since the National Dangerous Drugs Control Board was aware about the aforesaid 2030 agenda, action had been taken to identify Sustainable Development Goals relating there to, targets, starting points to reach those targets and indices to measure the achievement of those targets, internal circulars/ guidelines issued by the Board for the execution of those goals were not available with the Board.
- (b) Despite an accurate database should be essentially available in order to measure the performance of an activity, it was observed that the Board had not created a correct database to measure the reaching of Sustainable Development targets. It was further observed that insufficient physical resources such as computers, internet facilities and non-identification of financial provisions had caused thereto.
- (c) The risk of obtaining resources and capacities continuously, required for the achievement of sustainable development targets had not been identified and the action to be taken to reduce that risk by the Board had also not been identified.

6. Accountability and Good Governance

6.1 Presentation of financial statements

The draft annual report should be presented to the Auditor General within 60 days after the closure of the financial year in terms of section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003. However, the draft annual report for the year under review had not been presented even by 28 August 2018.

6.2 Internal Audit

Even though an internal audit unit had been set up by the Board and one officer had been attached thereto the internal audit programme for the year 2017 had not been prepared. A sufficient internal audit had not been carried out in terms of paragraph 3.7.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

6.3 Procurement and contract process

6.3.1 Procurements

The following observations are made.

- (a) Even though the report of the Technical Evaluation Committee should be reviewed and re commanded by a procurement committee in terms of guideline 2.5.1 of the Government Procurement Guidelines - 2006, the Administrative officer had placed the order on the Report of the technical evaluation committee not so re commended in purchasing domestic consumable materials valued at Rs.171,375.
- (b) In terms of guideline 4.2.1(b) of the Government Procurement Guidelines – 2006, a master procurement plan should be prepared including procurements expected at least for a minimum period of 3 years. Nevertheless, the Board had prepared a procurement plan only for the year 2017.
- (c) The procurement plan for the year 2017 had been revised on 29 June 2017 and a total sum of Rs.42,240,000 had been estimated for the total procurement of the year 2017, but only a sum of Rs.2,744,172 or 6.5 per cent of the estimated amount had been spent and procurement functions relating to 93.5 per cent had not been carried out.
- (d) Any construction procurements estimated at Rs.18,150,000 planned to be executed during the year under review had not been executed and the construction works not included in the procurement plan had been completed and paid a sum of Rs.443,695 thereto.

6.4 Budgetary Control

A total sum of Rs.23,245,931 had been spent for 15 items of expenditure not budgeted in the year whereas any expenditure whatsoever had not been incurred, out of the estimated amount of Rs.68,923,000 relating to 10 budgeted expenditure items. Furthermore, variations ranging from 50 per cent to 100 per cent relating to 16 expenditure items were observed and as such it was observed that the budget had not been made use of as an effective instrument of management control.

7. Systems and Controls

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

Areas of Systems and Control

Observations

- | | |
|-----------------------------|--|
| (a) Assets Control | Register of fixed assets not properly maintained. |
| (b) Financial Control | Balances in dormant bank accounts not utilized for fruitful purposes. |
| (c) Human Resources Control | Not taking action to fill the vacancies of approved cadre. |
| (d) Expenditure Control | Performance of activities not planned. |
| (e) Procurements | Non – compliance with Government Procurement Guidelines. |
| (f) Stock Control | Procurement not made having being identified the stock requirement. |
| (g) Files Control | Non – availability of the certified copies of examination certificates in the personal files and examination certificates not got confirmed from the relevant institutions, concerned. |