National Authority on Tobacco and Alcohol – 2017

The audit of Financial Statements of the National Authority on Tobacco and Alcohol for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and statement of financial performance, 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 23(2) of the National Authority on Tobacco and Alcohol Act, No. 27 of 2006 . My comments and observations which I consider should be published with the Annual Report of the Authority 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 Authority on 19 June 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 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 Authority on Tobacco and Alcohol 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

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 1

In terms of paragraph 132 of the Standard, the Accounting Policy relevant to intangible assets amounting to Rs.2,357,890 owned by the Authority shown in the statement of financial position as at 31 December 2017 had not been disclosed in the financial statements.

(b) Sri Lanka Public Sector Accounting Standard 3

In terms of paragraph 47 of the Standard, material prior period errors shall be corrected retrospectively by restating the comparative amounts presented for the period in which the error occurred. However, adjustments had been made only to the accumulated profit of the year under review and Provision for Accumulated Depreciation Account as at 31 December 2017 for correcting the error of understating the depreciation on buildings and fittings by Rs.34,013 in accounts in the preceding year.

(c) Sri Lanka Public Sector Accounting Standard 7

(i) In terms of paragraph 25 of the Standard, instead of accounting the non-current assets received from the Ministry of Health and Nutrition at the establishment of the Authority, at their fair value, the cost of those assets amounting to Rs.6,369,803 had been capitalized on 01 January 2016 by the Authority. Moreover, those assets had not been properly vested.

(ii) In terms of paragraph 69 of the Standard, depreciation of an asset begins when it is available for use and depreciation of an asset ceases when the asset is derecognized. However, contrary to it, a policy had been identified to depreciate for the year of purchase of the asset and not to depreciate in the year of disposing of the asset. After such purchase of assets, annual depreciation for the preceding year and the year under review had been overstated by Rs.837,624 and Rs.399,748 in accounts respectively due to depreciation for the whole year without considering the date it was made available for use.

2.2.2 Accounting Deficiencies

In terms of the policy identified by the Authority on accounting Government grants received for capital expenditure, it had been indicated that it would be brought to account as an income of each year by an amount similar to that of the annual depreciation, based on the useful life of assets. However, Government grants had not been identified as an income by a similar amount to that of the annual depreciation accounted in the preceding year and the year under review for assets acquired on Government grants. As such, the deficit had been overstated by Rs.4,043,243 and Rs.8,782,878 respectively in the preceding year and the year under review.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions were as follows.

Reference to Laws, Rules and Regulations etc.	Non-compliance
(a) Section 47 of Employees' Provident Fund Act, No.15 of 1958 and Section 44 of Employees' Trust Fund Act, No.46 of 1980	Contributions for Employees' Provident Fund and Employees' Trust Fund had been computed without applying the Cost of Living Allowance. As such, the contributions for the Employees' Provident Fund and the Employees' Trust Fund amounting to Rs.28,704 and Rs.46,696 respectively for the preceding year and the year under review had not been deducted from the salaries of employees. Moreover, the contribution of the employer for the Employees' Provident Fund and the Employees' Trust Fund had been less by Rs.71,760 and Rs.10,764 in the preceding year respectively and less by Rs.116,740 and Rs.17,511 respectively in the year under review.

(b)	Section 20 of Payment of Gratuity Act, No.12 of 1983	In terms of Section 20 of the Act, gratuity had been computed including adjustment allowances and special allowances which do not fall into salaries or wages. As such, overprovisions for gratuity amounting to Rs.19,762 and Rs.120,255 had been made respectively for the preceding year and the year under review.
(c)	Circular No.95 dated 14 June 1994 of the Department of Public Enterprises	Only the benefits specifically approved by the Cabinet of Ministers, Ministry of Public Administration or the General Treasury can be paid to employees with the approval of their respective Boards of Control. However, the Accountant of the Authority had been paid a monthly allowance of Rs.10,000 during the period from October 2016 to September 2017 which had not been approved by the Cabinet of Ministers, Ministry of Public Administration or the General Treasury. The total amount so paid was Rs.120,000.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the operations of the Authority for the year ended 31 December of the year under review had been a deficit of Rs.12,478,615 as compared with the corresponding deficit of Rs.5,625,716 of the preceding year, thus observing a decline of Rs.6,852,899 in the financial result of the year under review as compared with the preceding year. The increase in employees remuneration, contract services and depreciation on non-current assets had mainly attributed to the decline in the financial result.

However, in readjusting employees remuneration, Government tax and depreciation on non-current assets to the financial result, the contribution of Rs.2,155,505 of the preceding year had declined to Rs.1,841,196 in the year under review.

4. Operating Review

4.1 Performance

4.1.1 Function and Review

The following observations are made.

(a) The progress reports of the year under review had not been prepared in compliance with the format of the Annual Action Plan prepared for the year under review by the Authority. As such, the progress of the Authority could not be properly reviewed.

(b) In terms of Section 14 of the National Authority on Tobacco and Alcohol Act, No.27 of 2006, the Authority had not taken action to perform the following functions or to prepare plans therefor.

   (i) Recommend measures in consultation with the National Dangerous Drugs Control Board, for the elimination or minimization of illicit drug use.

   (ii) Monitor the progress of all investigations and criminal cases relating to tobacco and alcohol and liaise with local, regional and international organizations on issues relating to tobacco and alcohol.

(c) The Authority had not performed the functions in accordance with the Action Plan. As such, provisions of Rs.12,300,000 and provisions of Rs.11,830,000 out of provisions of Rs.34,000,000 estimated for 12 sub activities had not been utilized. Moreover, a sum of Rs.526,721 had been spent exceeding provisions of two sub activities.

4.2 Uneconomic Transactions

The land which had been allocated during the period from the year 2009 to the year 2012 by the Urban Development Authority for constructing the official premises of the Authority had not been utilized. As such, that land had been vested with another institution. Accordingly, a building had been obtained on rental basis from a subsidiary of the Urban Development Authority to operate the office of the Authority deviating from the procurement procedure and without a valuation of the Chief Government Valuer. Agreements had been entered into with the relevant company by changing the ratio of lease rent of the building every two years and the lease rent paid for the preceding year and the year under review amounted to Rs.7,888,407 and Rs.8,443,954 respectively.

5. Achievement of Sustainable Development Goals

The National Authority on Tobacco and Alcohol had not been aware of the Circular No.NP/SP//SDG/17 of 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and the 2030 Agenda of the United Nations on sustainable development. As such, action had not been taken to identify the sustainable development goals and targets relating to its functions and the focal points to reach those targets and the indices for measuring the achievement of targets.