

## **National Authority on Tobacco and Alcohol - 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Authority on Tobacco and Alcohol for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to the Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in the paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

As per the Section 16(1) of the National Audit Act No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements**

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal Vouchers, Payment Vouchers etc. may include under this heading.

#### **Audit Observation**

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#### **Comments of the Management**

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#### **Recommendation**

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Foreign grant of Rs.27,982,925 which had been received directly to the Authority since the year 2016 to the year 2018 and expenditure incurred from the said grant had been entered only in a cash book maintained for foreign grant without entering in the cash book which had been maintained for other cash receipts and payments of the Authority.

Books of accounts and vouchers since the year 2016 to the year 2018 were submitted to audit on 27 March 2019.

All foreign grants and expenditure incurred from the said grant should be entered in the cash book which is maintained for the other cash receipts and payments should be entered in the ledger accounts and further it should be disclosed in the financial statements.

Further actions had not been taken to enter in the ledger accounts and to disclose in the financial statements.

As per the Financial Regulations, foreign grants should be deposited in the General Treasury and actions should be taken to make provisions for expenditure.

According to the Financial Regulations 625(3), the said foreign grant had not been deposited in the General Treasury and provisions had not been made in the Estimates to utilize those grants.

All written evidence should be submitted for vouching transactions.

Any written evidence except for the cash book which had been entered the grant received and the expenditure thereon and payment vouchers had not been submitted to audit.

## 1.5.2 Non Compliance with Sri Lanka Public Sector Accounting Standard

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<b>Non Compliance with reference to the particular Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) According to the paragraph 47 of the Sri Lanka Public Sector Accounting Standard 3, material prior period errors should be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for prior period presented in which the error occurred. However without doing so, a sum of Rs. 16,416,251 had been adjusted to the Authority Fund and 6 items into the financial position statement as at 31 December 2018 as prior year adjustments.	The said matter was already taken in to consideration and actions will be taken to follow the Standard in future.	Actions should be taken in accordance with the Standard. The said error should be rectified in preparation of financial statements for the year 2019.

- (b) According to the paragraphs 23 and 28 of the Sri Lanka Public Sector Accounting Standard 14, details relating to the transactions made by the members of the Board of Directors with the related parties had not been disclosed in the financial statements. Actions had already been taken to aware the members of the Board of Directors to collect the said information and those information are being collected at present. Actions should be taken in accordance with the Standard. The said error should be rectified in preparation of financial statements for the year 2019.
- (c) According to the Sri Lanka Public Sector Accounting Standard 19, actions had not been taken to create an asset for payment of employees benefit, to assess the present value of the employees benefits which should be paid to the employees in future by an actuarial valuer and if there is a loss or profit when compared with the fair value of the asset, to recognize such amount in the accounts. Provision had been made for employees benefit and necessary actions will be taken to calculate the present value of the employees benefit which to be paid in future and to make necessary arrangements. Actions should be taken in accordance with the Standard. The said error should be rectified in preparation of financial statements for the year 2019.
- (d) According to the paragraph 21 of the Sri Lanka Public Sector Accounting Standard 20, intangible assets should be recognized only in the instances of, the authority of receiving future economic benefits is owned by the Authority and controlling power of assets is owned by the Authority. Contrary to that a sum of Rs.67,949,653 incurred on awareness programmes in the years 2016, 2017 and 2018 had been identified as intangible assets instead of identifying as recurrent expenditure. Considering the all activities of the Authority such as training programmes and awareness programmes, it had been identified as intangible assets as the benefit was generated at the instance of incurring expenditure. Actions should be taken as per the Accounting Standard and such expenditure should be taken in to accounts as recurrent expenditure. The said error should be rectified in preparation of financial statements for the year 2019.

### 1.5.3 Accounting Deficiencies

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Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Accrued expenses amounting to Rs.710,408 as at 31 December 2018 had not been taken in to accounts and a sum of Rs.715,831 paid for the previous year had been identified as an expense of the year under review.	Hope to take actions according to your instructions and awareness in preparing financial statements in future.	Revenue and expenditure relating only to the year should be recognized as per the accrued concept. The said error should be rectified in preparation of financial statements for the year 2019.
(b) Although audio and video tapes with carrying value of Rs.1,843,385 as at 31 December 2018 should be recognized as intangible assets, it had been recognized as property plant and equipment.	Actions will be taken to calculate depreciation considering the number of days of the year as 365 when preparing the financial statements in coming years.	Assets should be recognized properly and taken in to accounts. The said error should be rectified in preparation of financial statements for the year 2019.

### 1.5.4 Unauthorized Transactions

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Details of unauthorized transactions -----	Comments of the Management -----	Recommendation -----
A sum of Rs.1,000,000 had been sent to the Director General of Health Services for a function of offering honour to the Minister of Health, Nutrition and Indigenous Medicine even though the said action is not complied with the activities mentioned in the paragraph 14 of the National Act on Tobacco and Alcohol No.27 of 2006.	This expenditure was incurred under the sub activity of empowering political leaders for eradication of tobacco and alcohol of the Annual Action Plan. Awareness of activities done and which should be done by the National Authority on Tobacco and Alcohol, was done in front of the President and the Prime Minister in the meeting of which higher ranking state officers who engaged with policy planning of tobacco and alcohol, political leaders	This amount should be recovered from the officers who engaged in authorization, approval, certification and payment relating to the expense which was not complied with the activities of the Authority.

and the General Public gathered. Further a lecture was conducted by the professor Kalo Fonseka former Chairman of the Authority on the policies and implementation of tobacco and alcohol.

## 1.6 Non Compliance with Laws, Rules and Regulations

Reference to laws Rules and Regulations ect.	Non Compliance	Comments of the Management	Recommendation
(a) National Act on Tobacco and Alcohol No.27 of 2006	Rs.		
(i) Section 3(1)(b)	Although an officer held a higher rank than a Senior Assistant Secretary of the Ministry of Justice should be appointed as a member of the Management Committee of the Authority, the said member had not been appointed even up to 31 March 2019.	A request was made to the Secretary of the Ministry of Health to appoint the said member and action will be taken to send a reminder.	Actions should be taken as per the Act.
(ii) Section 22 (2)	All funds received to the Authority as rewards, grants or donations from the Consolidated Fund, Sri Lanka and out sources, should be credited to the Fund maintained in favour of the Authority. However a sum of Rs.47,037,360 received as Government Grant during the year under review had been directly credited to the Government Grant account without crediting to the Fund account.	The Authority had followed the accounting practice which was followed in previous years. Necessary actions will be taken to credit to the Authority Fund in future.	Actions should be taken as per the Act and all rewards; grants or donations should be credited to the Fund maintained in favour of the Authority.

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| (b) Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 | A draft annual report of the Authority had not been submitted along with the annual financial statements  | The draft of the annual report is being prepared and actions will be taken to submit as soon as possible.           | A draft annual report should be submitted along with the financial statements as per the Circular. |
| (c) Public Finance Circular No. 01/2014 dated 17 February 2014                     | Updated organization structure of the Authority, approved cadre and details relating to the actual cadre, budget, master procurement plan imprest requirement plan and internal audit plan had not been included in the action plan prepared for the year under review. | The budget and the master procurement plan had been included in the action plan prepared for the year under review. | Actions should be taken as per the Circular.   |

**2. Financial Review**

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**2.1 Financial Results**

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The operations of the year under review had resulted a deficit of Rs.11,581 and the corresponding deficit for the previous year was Rs.12,478,615. Thus an increase of Rs.12,467,034 was observed in the financial result. Accounting of amortization of Rs.12,902,799 as a revenue had mainly affected to the said improvement.