

National Dangerous Drugs Control Board - 2020.

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Dangerous Drugs Control Board for the year ended 31 December 2020 comprising the statement of financial position at 31 December 2020, statement of comprehensive income, 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 Parliament appear in this report.

In my opinion, except for the effects of the matters described in chapter 1.5 in this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2020 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

My opinion is qualified based on the matters mentioned in 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

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 Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

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

As per sub Section 16(1) of the National Audit Act No. 19 of 2018, the Board 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 Board.

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

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.
- Obtained 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 Board'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 Board'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 auditor's report. However, future events or conditions may cause the Board 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements.

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards.

Non-compliance with reference to the relevant standards	Comment of the Management	Recommendation
(a) Although in terms of paragraph 49 of Sri Lanka Public Sector Accounting Standards 07 the entire class of property plant and equipment to which that assets belongs shall be revalued. However out of lands and buildings costing Rs. 73,583,056 as at 31 December 2017 only the lands and buildings costing Rs. 10,447,264 had been revalued. As a result, a part of lands and buildings as at 31 December 2020 had been stated at their cost and another part had been stated at the revalued amount in the financial statements.	That it had been planned to revalue all the lands and buildings owned by the Board, the Department of Valuation has been informed in writing to provide a service of an officers promptly in this connection, the revaluation process could not be completed due to Covid 19 pandemic and that action will be taken to complete the accounts by expeditiously completing the revaluation after providing service by that Department.	Action should be taken to revalue all the lands and buildings in terms of Sri Lanka Public Sector Accounting Standard 7.

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| (b) | As the useful life of non-current assets had not been reviewed in terms of Paragraph 65 in Sri Lanka Public Sector Accounting Standard 7, the estimated error on the useful life of assets costing Rs. 184,019,059 which were in use despite being fully depreciated had not been revised in terms of Sri Lanka Public Sector Accounting Standard 03 and the carrying amount had not been stated in the financial statements. | Action will be taken to account for in keeping with Sri Lanka Public Sector Accounting Standard 7. | Action should be taken in terms of Sri Lanka Public Sector Accounting Standard 7 with respect to the assets in use despite being fully depreciated. |
| (c) | In terms of Paragraph 59 of the Sri Lanka Public Sector Accounting Standard 19, the pension benefit liability had not been measured on a discounted basis and that liability had been disclosed as Rs. 61,566,421 in the financial statements. | Action will be taken to account for in keeping with Sri Lanka Public Sector Accounting Standard 19 in the future. | Financial statements for the year 2021 should be prepared and presented by rectifying the errors in terms of Sri Lanka Public Sector Accounting Standard 19. |
| (d) | In terms of Paragraph 96 of the Sri Lanka Public Sector Accounting Standard 20, the useful life of software costing Rs. 928,085 identified as intangible assets as at 31 December 2020 had not been assessed, and depreciated annually. | Action will be taken to account for in keeping with Sri Lanka Public Sector Accounting Standard 20 in the future. | Financial statements for the year 2021 should be prepared and presented by rectifying the errors in terms of Sri Lanka Public Sector Accounting Standard 20. |

1.5.2 Accounting Deficiencies

Audit Observation

 The value of new building constructed by a donor at the Nawadiganthaya Rehabilitation Centre had not been assessed and brought to account by 31 December 2020.

Comment of the Management

 This error will be corrected in the preparation of accounts for the year 2021.

Recommendation

 Action should be taken to assess donations and shown in the financial statements.

1.5.3 Unreconciled Control Accounts or Reports.

Item	Value as per financial statements	as	Value as per corresponding reports	Difference	Comment of the Management	Recommendation
	Rs.Millions		Rs.Millions	Rs.Millions		
(a) Property, Plant and Equipment.	761.85		769.29	7.44	Action will be taken to find out reasons for the differences expeditiously and report it to the Audit.	The financial statements for the coming year should be prepared and presented by making necessary adjustments subsequent to finding out immediately the reasons for differences.
(b) Provision for accumulated depreciation .	258.04		266.79	8.75	Action will be taken to find out reasons for the differences expeditiously and report it to the Audit.	The financial statements for the coming year should be prepared and presented by making necessary adjustments subsequent to finding out immediately the reasons for differences.

1.5.4 Suspense Account

Item	Amount	Duration in Suspense	Comment of the Management	Recommendation
	Rs.	Years		
Suspense Account	480,900	07	According to the instructions given at the Audit and Management Committee meetings held on 03 March 2021, a committee has been appointed to settle that balance and the relevant balance is being settled at present.	The balance of the Suspense Account should be settled as soon as possible.

1.6 Accounts Receivable and Payable

1.6.1 Advances

Audit Observation

The debit balance of Rs. 1,782,060 in the advance account as at 31 December 2020 remained unmoved for over 20 years and adequate information was not furnished to audit to confirm accuracy of those balances.

Comment of the Management

As the advance account balance is very old, it is not possible to identify and according to the instructions given at the Audit and Management Committee meetings held on 03 March 2021, a committee has been appointed to settle that balance and the relevant balances are being settled at present.

Recommendation

Adequate information should be furnished to audit to confirm accuracy of advance account balances.

1.7 Non-compliance with laws, rules, regulations and management decisions, etc.

Reference to laws, rules, regulations etc.

(a) Drug dependent Persons (Treatment and Rehabilitation) Act, No. 54 of 2007 Section 7

Non-compliance

Assessment had not been appointed.

Comment of the Management

Panel That necessary measures have been taken to amend the Drug Dependent Persons (Treatment and Rehabilitation) Act, No. 54 of 2007, the Assessment Panel in terms of Section 7 of the was not appointed due to practical issues and that the amended Bill avoiding those issues was submitted to the Ministry of Justice on 10 May 2021 to be forwarded to the Cabinet of Ministers.

Recommendation

As the Assessment Panel had had not been appointed, an evaluation on the significant matters such as the level of being addicted to the drugs by the clients who are under the rehabilitation, tendency to re-addiction, physical and mental level, family and social background has not been carried out and therefore, the Assessment Panel should be appointed as soon as possible to achieve maximum productivity from the rehabilitation process.

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

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| (i) Financial
Regulation 381 | Although an application to open an official bank account should be made to the Treasury, no such application had been made in respect of the current account opened during the year under review. | Financial assistance was received from various parties for treatments and rehabilitation activities of the drug addicts and a separate bank account was opened to deposit them. Action will be taken as in the audit observation in the future. | Action should be taken in accordance with Financial Regulations |
| (ii) Financial
Regulation
395 (g) | Although preparation of bank reconciliation statements and maintenance of cash book should be carried out by two independent officers, those two activities had been carried out by the same officer. | Audit observation is agreed upon and action will be taken to rectify the error in the future. | Duties should be assigned so as to establish a proper internal control. |

2. Financial Review

2.1 Financial Results

The operations of the Board during the year under review had resulted in a deficit of Rs.12,697,277 as compared with the deficit of Rs. 38,259,643 for the preceding year, thus observing an increase of the financial result by Rs. 25,562,366. This increase was mainly attributed to the increase in the government grants by Rs. 26,757,210.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) In terms of Extraordinary Gazette No.1653/19 of 12 May 2010, in case any person maintains a private rehabilitation centre to take care of the drug addicts, it is mandatory for him to obtain a licence issued by the National Dangerous Drug Control Board. Nevertheless, there were 14 private treatment centres of which licences had expired by July 2021. The income earned from the issue of licences in 2019, 2020 and up to July 2021 was Rs. 17,000, Rs.13,500 and Rs. 2,000 respectively, and accordingly, a gradual decrease in the renewal of licences was observed. No proper steps had been taken in this connection.	Having identified the issues crop up in regulating the private treatment centres and prepared a Cabinet Memorandum to amend the Drug Dependent Persons (Treatment and Rehabilitation) Act, No. 54 of 2007, it has been referred to the Ministry of Justice.	Necessary measures should be taken for regulating the private treatment centres.
(b) Although 26 private treatment centres established for take care of and rehabilitating the drug addicts are functioning under the direct supervision of the Board, only three Investigating Officers had been employed for investigations of all those treatment centres. Further, two posts of Investigating Officer (Treatment) remained vacant for a number of years. It was observed in the study of investigation reports that there were many shortcomings and weaknesses in the treatment centres due to failure to conduct investigations according to a proper plan through an adequate training staff duly recruited.	That only three posts of Investigating Officer have been approved; an Investigating Officer was retired on 15 July 2020 and that vacancy should be filled immediately; action should be taken to get approval for the necessary staff in the future and that assistance of 22 field officers serving at district and provincial level will be obtained for the supervision of the private treatment centres according to a proper plan by avoiding present scarcity of the officers.	The required number of Investigating Officers should be determined following a proper study and approval should be obtained to include it in the cadre.
(c) There observed a trend that the persons who had been addicted to drugs over a long period were seeking services of the treatment and rehabilitation centres over and 157 clients who had completed the period of treatment at Nitambuwa, Kandy, Galle and Thalangama Rehabilitations of the Board had again	That action will be taken to improve the follow up process on the clients in the future.	The follow up process should be properly implemented.

admitted to the Centres for treatments during the year 2020.

3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Management	Recommendation
Although the land containing 40 perches in extent had been purchased by incurring Rs.4,027,518 and situated at Homagama on thirty years lease basis on 30 April 2014, it remained idle up to 01 September 2021, without being used for an effective purpose.	That the intended purpose could not be achieved up to date for not receiving the financial provisions and the Ministry of Defence has informed on 08 February 2021 that action will be taken to provide a Pre Fab Building as a solution.	Prompt action should be taken to achieve the intended purpose.

3.3 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
(a) As at 01 July 2021, there were vacancies of 125 posts equivalent to 33 per cent of the approved cadre and as the activities of the Board had been carried out with a staff equivalent to 67 per cent of the approved cadre, it was observed that approval had been obtained for unnecessary cadre that had been prepared without properly identified the necessity of the Board.	Action is being taken to carry out cadre reviewing and action will be taken to correct the highlighted shortcomings in the future.	The approved cadre should be suitably revised after a proper study.
(b) The Director (Administration), Director (Research) and Director (Treatment, Rehabilitation and Outreach) remained vacant from 2013 and the post of Director General was in vacant from 2017. It was observed that the top management posts of the Board remained vacant over a long period, thus directly affecting the proper achievement of the objectives of the establishment of the Board.	Although applications were called for by publishing newspaper advertisements and gazette notifications on 23 October 2020, applications with basic qualifications as per the scheme of recruitment were not received and officers have been appointed on acting basis for the above vacant posts.	Every possible effort should be made to recruit qualified officers for these essential posts on permanent basis.