

## **National Authority on Tobacco and Alcohol - 2020**

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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 2020 comprising the statement of financial position as at 31 December 2020 and 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 the Finance Act, No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Authority as at 31 December 2020 and of its financial performance and 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 on the matters described 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**

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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 determines 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, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend 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 Sub-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, it's materiality 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 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 management's use of the going concern basis of accounting and based on the audit evidences obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund'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 Fund 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 Fund has performed according to the powers, functions and duties; and
- Whether the resources of the Fund has been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

**1.5 Audit observations regarding the preparation of financial statements**

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

<b>Non- compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>According to paragraph 82 of Sri Lanka Public Sector Accounting Standards 1, the provisions for gratuities as at 31 December 2020 was Rs.493,165, which was mentioned under current liabilities instead of non-current liabilities. In accordance with paragraphs 118 and 119 of that standard, the changes in the components included in the net assets / equity during the year under review had not been explicitly stated in the statement of changes in equity presented with the financial statements. Further, the details of Rs. 4,345,936 spent on various programmes during the year under review had not been classified according to the relevant programmes and disclosed in the financial statements.</p>	<p>Action will be taken to classify the expenditure of the financial statements prepared for the year 2021 and to prepare and submit the statement of changes in equity accordingly.</p>	<p>Disclosures required in accordance with Sri Lanka Public Sector Accounting Standards 1 should be made in the financial statements.</p>

## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Rs. 3,536,000 due for the Global Adult Tobacco Survey had not been accounted for as accrued expenses as at 31 December 2020. Therefore, the shortfall in the year under review was understated than that amount in the financial statements.	This error will be corrected in the financial statements prepared for the year 2021.	This error should be corrected and financial statements should be prepared for the year 2021.
(b) Even though the error in classifying the value of audio and video tapes, of which the total cost of intangible assets is amounted to Rs.2,998,625, under property, plant and equipment had been rectified, high depreciation reservations of Rs.1,155,241, which is the difference between the depreciation amounts of those assets, had not been adjusted to the cumulative surplus / deficit account again. Therefore, the net worth of intangible assets was understated by an equivalent amount in financial statements.	-do-	-do-

## 1.6 Non Compliance with Laws, Rules and Regulations

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Reference to laws Rules and Regulations ect.	Non Compliance	Comments of the Management	Recommendation
	<b>Rs.</b>		
(a) Section 14 (o) of the National Authority on Tobacco and Alcohol Act No. 27 of 2006.	The progress of all investigations and criminal proceedings related to tobacco and alcohol had not been surveyed, and only an annual report had been obtained on the number of cases filed by only 02 of the 04 authorized officers under the Act.	The relevant information was provided to the Authority by the Sri Lanka Police via e-mail on 10 July 2021.	The Authority should expedite taking the necessary action to carry out the functions specified in the Act.
(b) Financial regulation no. 381, Financial Regulation 625(3) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, the Letter no. SC&PMU/Grant/19 dated 25 July 2019 issued by the Director General of the Department of External Resources of the Ministry of Finance	In year 2008 and 2015, two bank accounts had been opened in the name of the Bank of Ceylon Authority without the approval of the Treasury. Similarly, the grants of Rs.1,203,537, awarded for the Global Adult Tobacco Survey by the World Health Organization, had not been obtained through the Department of External Resources with the sanction of that department and deposited the same amount directly to an account of the Bank of Ceylon. Further, the entire grant had been spent during the year under review without making any provision in the allocations.	On the advice of the Board of Directors, the money donated by various parties from the year 2021 will be deposited in the Treasury in accordance with the Financial Regulations and approved circulars.	Must comply with applicable monetary regulations and circular provisions.

- (c) Public Enterprise Circular No. PED / 12 dated 02 June 2003
- (i) Section 5.2.1 and 5.2.3
- Even though the budget for the year under review should have been prepared with the Budget Revenue and Expenditure Statement for the year ended 31 December 2020, along with the Budget Cash Flow Statement and Balance Sheet as at that date, only the Budget had been prepared not to comply with the circular provisions. Similarly, only activities related to the provisions received from the Treasury had been included therein and activities related to the foreign grants received directly to the above mentioned bank account had not been included therein.
- Necessary steps will be taken in due course to prepare the budget documents required for the year as per the circulars and to include the activities related to direct foreign grants to the budget documents prepared by the Authority.
- The budget should be prepared in such a way as to cover all the activities of the Authority in accordance with provisions of the circular.
- (ii) Section 6.3.1
- The draft annual report prepared for the year under review had not been prepared in accordance with the requirements set out in the circular and the functions of the authority referred to in the Act, the functions performed under foreign grants, etc. had not been included therein.
- That the draft annual report prepared for the year 2020 was not a complete report and that action would be taken to submit the duly prepared annual report to Parliament.
- A copy of the Annual Report prepared in accordance with the circular provisions should be submitted for audit.
- (iii) Section 7.4.1
- Even though 4 meetings of the Audit and Management Committee had to be
- That the Audit and Management Committee meetings could not be held for
- Arrangements should be made to hold Audit and Management

held during a year, no meeting had been held for the year under review. the year 2020 due to certain reasons. Committee meetings in accordance with the circular provisions.

**2. Financial Review**

**2.1 Financial Results**

The operations of the year under review had resulted in a deficit of Rs.1,337,220 and the corresponding deficit of the preceding year was Rs.472,997. As such, a decline of Rs.864,223 was observed in the financial result. Decrease of domestic and foreign capital grants by Rs.21,709,620 compared to last year had been the main reason for the said decline.

**2.2 Trend analysis of major revenue and expenditure subjects**

Domestic and foreign capital grants during the year under review had declined by Rs.21,709,620 or 90 percent compared to the previous year and expenditure on the Authority's programmes had been decreased by Rs. 22,061,982 or 83%.

**3. Operating Review**

**3.1 Operating Inefficiencies**

Audit Observation	Comments of the Management	Recommendation
<p>The Authority had failed to raise sufficient local or foreign funds annually to enable them to be able to fulfil the mission of the Authority of uniting all social sectors to rid the society from the dangers of tobacco and alcohol. As a result, the expenditure incurred on programmes in year 2017, which was Rs. 23.11 million, had been decreased by 81 per cent to Rs.4.35 million by year 2020. Similarly, the expenditure incurred on performing the functions prescribed by the Act was 132 per cent of the expenditure incurred on the</p>	<p>The outbreak of the Covid epidemic in the country was the main reason for the decline in expenditure on programmes during the year 2020 and only the tasks that could be performed in the action plan had been carried out. During the year 2021, measures has been taken to hold meetings, programmes and workshops etc. under the existing restrictions following the instructions given by the government for Covid administration. Accordingly, the Authority will ensure the maximum possible</p>	<p>Urgent action should be taken to improve the performance of the Authority.</p>

day-to-day running of the Authority, but by the year 2020 it had decreased to 20 per cent. Accordingly, it was observed that the performance of the Authority had declined by 112 per cent by the end of the year under review.

performance to enhance the performance while maintaining a growth in the activities of the Authority.

### 3.2 Procurement Management

Audit Observation	Comments of the Management	Recommendation
The first phase of the Global Adult Tobacco Survey, launched in 2019 under the grants of the World Health Organization, has not been approved by the Board of Directors, and Rs. 2,904,185 had been paid to 03 suppliers for obtaining services related to this project without following the government approved procurement process during the year under review.	Payments had been made on the basis of information provided by the Department of Census and Statistics for the first phase of the Global Adult Tobacco Survey conducted in late 2019 and the Department of Census and Statistics called for bids in favour of the Authority.	The government-approved procurement process should be followed.

## 4. Accountability and Good Governance

### 4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
According to public Finance Circular No. 01/2014 dated 17 February 2014, the action plan prepared for the year under review had not identified the targets for expected physical progress, and as a result there were no specific criteria for measuring the physical performance of each activity. Similarly, due to the discrepancy between the expected financial	The action plan prepared on behalf of the Authority will be prepared including the targets for the expected physical progress and the Authority will take note of this and take measures to prevent such situations in the future.	The action plan should be designed to include specific measurement criteria for measuring physical performance in accordance with the circular.



progress in the action plan and the expected financial progress in the prepared progress reports and since the activities related to the foreign grants received directly into the bank account had not been included in the action plan and progress reports, the financial performance of the authority could not be identified correctly.

#### 4.2 Internal Audit

Audit Observation	Comments of the Management	Recommendation
An internal audit had not been conducted on transactions made by the authority during the year under review.	Even though a written request had been made by the Internal Audit Division of the Ministry of Health, no audit was conducted for the year 2020.	An internal audit should be conducted.