

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the National Authority on Tobacco and Alcohol for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 presented in 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 2021, and 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

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 determines 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, 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

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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 audit 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 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 Standard	Comment of the Management	Recommendation
a) As the cash flow statement had not been prepared for the year under review in terms of Sri Lanka Public Sector Accounting Standard 02, the net cash flow under operating activities had been overstated by Rs. 377,590, and the net cash flow generated through the investments activities had been understated by Rs. 102,475 whilst the value of cash and cash equivalents had been understated by Rs. 275,115 as at 31 December 2021.	The cash flow statement will be prepared in accordance with Sri Lanka Public Sector Accounting Standard 02 in the ensuing year.	The cash flow statement should be prepared in accordance with provisions of the Sri Lanka Public Sector Accounting Standard 02.
b) According to Section 49 of the Sri Lanka Public Sector Accounting Standard 07, the entire class of assets should be revalued at once. However, only the computers and accessories	When assets are revalued in due course, provisions of the Standard will be followed.	Assets should be revalued in accordance with provisions of the Sri Lanka Public Sector Accounting

with the net value of Rs. 257,180 that had been purchased prior to 2017 by the Authority, had been revalued to the sum of Rs. 743,750 on 28 February 2022 thus showing a revaluation profit of Rs. 486,570 in the financial statements of the year under review. Furthermore, based on that revaluation, a sum of Rs. 148,750 had been computed as depreciation and brought to accounts. Details relating to the said revaluation had not been disclosed in the financial statements.

Standard 07.

1.5.2 Accounting Deficiencies

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
The loss of Rs. 84,175 sustained due to the sale of 10 items of miscellaneous assets with a carrying amount of Rs. 102,475 that had been withdrawn from normal use in the year under review, had not been written off against the revenue of the year under review; instead, that value had been adjusted to the profit generated through the revaluation of computers and accessories. As such, the deficit of the year under review had been understated by a similar value.	The loss of Rs. 84,175 sustained through the sale of assets withdrawn from normal use in the year 2021, had been recognized as a capital gain/loss. The capital profit of Rs. 486,569 generated through revaluing the assets by the end of that year, had been credited to the capital gain/loss account. A sum of Rs. 402,393 had been recognized as the net result of capital gain/loss account.	The loss sustained through the sale of assets, should be written off against the revenue of the year.

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations etc.	Non-compliance	Comment of the Management	Recommendation
a) Treasury Circular, No. 842 of 1978, and Paragraph 02 of Circular, No. DMA/2009(2) of the Department of Management Audit.	A Register of Fixed Assets had not been properly maintained in a manner that amounts of revaluation and cost of the Property, Plant and Equipment and intangible assets valued at Rs. 32,489,006 as at 31 December 2021 would have been recorded. Instead, only the main inventory had been maintained showing the number of items of assets.	Action will be taken in due course to prepare and maintain a register to record the amounts of revaluation and costs of Property, Plant and Equipment and the intangible assets.	A Register of Fixed Assets should be maintained properly in accordance with the Circular.
b) Public Administration Circular, No. 03/2017, dated 19 April 2017.	All the public institutions should verify the arrival and departure of officers by using finger scanners. However, the arrival and departure times of the Legal Officer recruited to the Authority on contract basis, had not been recorded through the finger scanner of the Authority. Without verifying the arrival and	Having been satisfied with the report on monthly duties prepared by the Legal Officer, his monthly salaries had been paid. Attention of the Board of Directors had been drawn in that connection. Management of the Authority will take measures to record the arrival and	Arrival and departure times of the Legal Officer should be verified through the finger scanner.

- departure times by any means, a sum totalling Rs. 841,455 had been incurred on that officer as gross salary and allowances during the year under review.
- departure times of the Legal Officer in accordance with decisions taken by the Board of Directors.
- c) Public Administration Circular, No. 09/2019 dated 22 April 2019. The monthly interim allowance of Rs. 2,500 approved to be paid to the Government officers in accordance with the budget proposals for the year 2019 that had been implemented on 01 July 2019, should not have been paid to the semi-government officers. However, a sum of Rs. 690,648 had been paid to 13 officers of the Authority as interim allowances during the 30 months period from July 2019 to December 2021. As it had been mentioned in the Pubic Administration Circular, No. 09/2019 effective from 01 July 2019 that the said allowance would be paid to all the Government officers, the allowance had been paid with effect from July 2019. Discussions were held in that regard at the meeting of the Board of Directors held on 29 March 2022. Action will be taken to obtain covering approval through the Secretary to the Ministry of Health for this allowance. The sum of Rs. 690,648 paid as interim allowance should be recovered from those who received it or the parties responsible.
- d) Cabinet Decision, No. 21/Misc (032) dated 15 June 2021, Staff of the Authority had not been entitled to As the Authority functioned under the Line The sum of Rs. 262,375 paid as interim allowance

and Letter, No. MIN/Add/See/Adm in/16/21 of the Secretary to the Ministry of Health dated 16 June 2021. the special monthly allowance of Rs. 7,500 that had been approved to be paid monthly to the health service staff for a 03 month period from June 2021 to August 2021. Nevertheless, 12 employees of the staff of the Authority had been paid a sum totalling Rs. 262,375 as special allowance during the said period of 03 months. Ministry, all the staff members were entitled to that allowance as per the letter issued by the Secretary to the Ministry of Health. After the telephone conversation held between the Chairman of the Authority and an officer of the Ministry of Health, it was informed in writing by the Chairman that the allowance would be paid to the officers of the Authority. Accordingly, payments were made to all the permanent staff members of the Authority relating to the period from June 2021 to August 2021. Irrespective of the quarantine curfew and travel restrictions between provinces imposed from time to time by the Government in the year 2021, staff of the Authority should be recovered from those who received it or the parties responsible.

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continuously.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs. 1,523,419 as compared with the corresponding deficit of Rs. 1,337,220 in the preceding year, thus observing a deterioration of Rs. 186,199 in the financial result. The increase in expenditure incurred on personnel emoluments and programs by 62 per cent and 65 per cent respectively as against the preceding year, had mainly attributed to this deterioration.

2.2 Analysis of Trends in Main Items of Income and Expenditure

The domestic and foreign capital grants received in the year under review had increased by Rs. 5,960,583 or 264 per cent whereas the expenditure on personnel emoluments and programs had increased by Rs. 5,171,969 and Rs. 2,806,599 respectively equivalent to 62 per cent and 65 percent.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
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a)	The Authority had incurred a sum of Rs. 4,608,085 in the year under review comprising Rs. 1,380,500 for improving the 1948 Quit Line service, Rs. 2,022,500 for promoting that service, and Rs. 1,205,085 for maintaining the counselling service. Counselling services had been provided for 2,797 of 9,025 telephone calls received during the year under review whilst 1,084 calls had been diverted to institutions such as, Excise Department of Sri Lanka, Police Narcotics Bureau, and National Dangerous Drugs Control	Counselling service had been provided by 02 counselling officers employed on contract basis, but the number of calls received had increased as the service had been promoted in the year 2021. Accordingly, the Authority trained 23 counselling officers through a certificate course on counselling. They provided their service voluntarily through telephone conversations after 4.00 in the evening. Only	The service should be further improved by taking action to measure the productivity of the service.

Board. Although counselling services had been provided for 2,797 calls, there existed no methodology to take follow-up action, and hence, the Authority could not measure the productivity of that service.

- b) A register had not been maintained properly by recording information on the calls received daily for the 1948 Quit Line service and the action taken in that regard so as to verify that such information would be monitored by an officer of higher rank. As such, the accuracy of statistical information presented in respect of the calls received by the counselling service and the services provided, could not be verified.
- Data on the calls received daily by the 1948 Quit Line service is collected and used to prepare progress reports on the number of calls received monthly. Those progress reports are certified by me as the Chairman of the Authority, and information on those who obtained counselling services is recorded by the counselling officers.
- A register should be introduced and maintained so that daily information relating to the 1948 Quit Line service is properly recorded and monitored. That register should be made available to the Audit whenever necessary.

3.2 Delays in Projects and Capital Works

Audit Observation	Comment of the Management	Recommendation
According to an agreement entered into by the Authority with the Department of Census and Statistics and the World Health Organization, final report of the Global Adult Tobacco Survey (GATS) should have been issued before 31 October 2021. However, it had not been done so even by 24 May 2022.	The validity period of the agreement entered into with the World Health Organization had been extended up to 31 October 2021. The fact sheet on the said survey for the period 2019/2020 was released to the media.	Action should be taken to expedite the issue of the final report of the Global Adult Tobacco Survey.

3.3 Procurement Management

Audit Observation	Comment of the Management	Recommendation
Two awareness programs had been conducted in the 02 districts of Anuradhapura and	The said pilot project had been implemented during the period of Corona pandemic.	The procurement process should be executed in accordance with

Monaragala under the pilot project for creating sustainable tobacco cultivation free districts using the financial grants of Rs. 2,979,900 to be received from the World Health Organization during the year under review. However, Government Procurement Guidelines had not been followed with respect to meals and accommodation facilities for those programs, and quotations had been called through email, thus paying a sum of Rs. 1,350,104 on meals and accommodation provided by suppliers selected by the Chairman of the Authority rather than a procurement committee. As such, transparency of the procurement process had not been secured.

Considering the facts that letters could not be exchanged properly through the Department of Posts and the program had been scheduled to be conducted from 21 January to 31 March 2021, the program had to be conducted expeditiously due to delay in receiving funds. As such, quotations had been called through emails. The programme had been conducted at the hotel that could be obtained for the dates scheduled for the programme. Higher ranking officials took part in the programme, and the dates were scheduled for their convenience. The selected hotel agreed to comply with guidelines of the Ministry of health relating to the prevention of Corona.

Government Procurement Guidelines.