

**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 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of the changes in net assets, 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 the 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 presented in 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 Board as at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for Qualified Opinion**

Based on the matters described in Paragraph 1.5 of this report, I express a qualified opinion on the financial statements

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 this 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.

#### **1.4 Auditor's Responsibility in Auditing 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:

- Designed and performed the appropriate audit procedures, identified and assessed the risks 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.
- 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 internal control.
- Evaluated 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.
- Evaluated 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 had been procured and utilized economically, efficiently and effectively within the timeframes and in compliance with the applicable laws.

## **1.5 Audit observations on the preparation of Financial Statements**

### **1.5.1 Internal Control on the preparation of Financial Statements**

The entity is required to maintain a well-designed 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.

### **1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-compliance with the reference to the respective standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Although the relevant asset class should be re-valued at once when the assets belonging to one class are re-valued as per the paragraph 49 of Sri Lanka Public Sector Accounting Standard No. 07, the revaluation had been carried out in parts contrary to the above requirement. Accordingly, even though the building account balance was Rs. 217,592,705 as at 31 December 2023, the building cost of Rs. 44,929,705 and the building revaluation amount of Rs. 172,663,000 had not been shown in the financial statements.	A request has been made to the Government's Valuation Department and the steps will be taken to carry out the revaluation activities in the future according to the arrival of the officials.	The proceedings should be done as per the Sri Lanka Public Sector Accounting Standards.

- (b) According to paragraph 65 of Sri Lanka Public Sector Accounting Standards 07, the residual value and the useful life of an asset was not reviewed at least at the end of each annual reporting period. Consequently, the useful life of the motor vehicles amounting to Rs.43,265,362 and the non-current assets software system of the amounting to Rs.928,085 was not estimated correctly due to which their value had been zero as at 31 December 2023. The actions had not been taken to revise the estimated error in accordance with the Sri Lanka Public Sector Accounting Standards 03.
- Though it has been stated in paragraph 05 of Sri Lanka Public Sector Accounting Standard No. 07, reviewing the residual value and the useful life of an asset at the end of each reporting period is not practically possible, all the cars were decided to be re-valued at the same time and accounted in the year 2024.
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### 1.5.3 Accounting Policies

Audit Observations	Comments of the Management	Recommendation
<p>(a) As per the paragraph no. 140 of Sri Lanka Public Sector Accounting Standard No. 19, an entity should disclose information that enables the users of financial statements to evaluate the nature of its defined benefit plans and the changes in the financial effects of those plans during that period. Further, no disclosure had been made on what basis the discount rate was determined regarding the calculation of the rate of increasing the salaries as per the paragraph no. 141 (n). Although the effect of the change in accounting policy on the financial statements should be disclosed through a note, the proceedings had not been done accordingly</p>	<p>It was an error of the Board not to disclose as per the 11 (Ϟ) of the standard. The arrangement will be made to disclose such things in the future.</p>	<p>The proceedings should be done as per the Sri Lanka Public Sector Accounting Standards.</p>

#### 1.5.4 Accounting Deficiencies

Audit Observations	Comments of the Management	Recommendation
(a) The head office land, which had been acquired on a 99-year lease basis in the year 1992, was re-valued at an amount of Rs.365,000,000 in the year 2018 and had been shown in the financial statements of the current year. Also, even if the value of the leased property should be shown separately, it had been accounted under the value of the lands. Though the lease value of this land was Rs 4,350,000 and its annual amortization value was Rs 1,318,182, the said value had not been taken to the account.	This is a land obtained on lease basis (Financial) in the year 1992 and in accordance with the paragraph 84 of "Sri Lanka Public Sector Accounting Standard No. 12-Leases", the amortization policy is not mandatory for the contracts starting before 01 January 2018.	The correct values should be included in the financial statements.
(b) Although the land of Pitipana, Homagama worth Rs. 4,085,019 which has been obtained on a 30-year lease basis had been listed under the land account, the leased land had not been taken to the account and amortized yearly.	After entering into an agreement, the amount of amortization will be adjusted in the accounts related to the past years by a journal entry of previous year adjustments.	The correct values should be included in the financial statements.
(c) The lease value of the land of Navadiganthaya Rehabilitation Centre owned by the Janata Estate Development Board which has been acquired on a 30-year lease basis as at 04 March 2016 according to the lease agreement was Rs. 13,062,750, and the lease amounts had been paid on annual lease basis and only the lease value paid had been accounted. The lease value had not been shown under leased land in the statement of financial position.	This has been obtained for 30 years until 03 March 2016, and the lease rental is revised every 05 years and the payment is made annually as per the above second agreement according to which the land has been obtained again for 30 years from 04 March 2016 to 03 March 2046.	The lease value should be shown in the financial statements.
(d) Although Rajagiriya main office land, land in Pitipana, Homagama and Navadigantha land should be mentioned under the lands acquired for the lease basis, the amortization had been adjusted only for the values of Rs 905,635 paid for Navadigantha land and	Only three lands; namely, the head office land, the land in Pitipana, Homagama and Navadigantha Mahena land have been obtained by the Board under financial lease basis. However, a lease	The accounts should be corrected. The amortization should be adjusted for all lands obtained on lease basis.

Rs 107,627 paid for Homagama land. Accordingly, all the leased lands had not been disclosed under the Note 2.3 of the Financial Statement.

agreement has not been entered yet for the land in Pitipana, Homagama. No disclosure has been made under the Note 2.3 of the financial statements about the land in Galle center and the land in Thalangama center.

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| (e) | A performance bond had been obtained on the invoice value of Rs 1,764,690 and the money had been paid for the repair of the lift installed in the building of the Dangerous Drugs Control Board. This value had been capitalized under machinery and equipment instead of being accounted under repairs in the financial statements of the year under review. | The said amount has been capitalized under machinery and equipment instead of accounting under advances in the financial statements. We agree with the audit observation mentioned. The actions will be taken to correct this in the accounts in the year 2024. | The expenditures should be accounted correctly.                    |
| (f) | Within the gratuity allocation value of Rs. 42,856,163 in the year under review, the gratuity allocations amounting to Rs. 1,973,454 had also been made for the four officers who are not in service. Consequently, the value of non-current liabilities in the statement of financial position had been overstated by Rs.1,973,454.                          | The errors in the value of Rs.1,973,454.00 included in "List of employees to provide gratuity" for the 4 officers who are not in service in the will be corrected in the year 2024.   | The correct values should be included in the financial statements. |

### 1.5.5 Suspense Accounts

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A debit balance of Rs. 295,214 from the Suspense Account existed from a period of two years.	Every possible effort will be taken to identify and settle the balance.	The balance of the suspense account should be identified and settled as soon as possible.

### 1.5.6 Absence of written evidences for the audit

<b>Subject</b>	<b>Amount Rs.</b>	<b>Audit Evidences not provided</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Capital Reserves	65,503.711	Ledger Accounts and Journal Entries	The capital reserve balance has remained with no change from 31.12.2016. It is difficult to clearly find from the books how this balance has been generated previously.	The actions should be taken to identify the balance.
Certificates of Deposits	566,263	Certificates of Deposits	The certificates related to these deposits have been misplaced in the past.	The balance should be verified from the related institutions.

### 1.6 Accounts receivable

#### 1.6.1 Advances

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The written information about the necessary steps to recover the debit balance of Rs.1,434,534 prevailed in the advance account which has not been charged for more than 20 years were not available in the responsible divisions, and the said details were not submitted to the audit.	As per the Public Finance Circular No. 01/2020, the instructions have been received to refer the related damages to the authorized officer and make arrangements to write off those balances. Accordingly, a letter has been forwarded on 06.06.2024 for the approval of the Secretary to the Ministry of Public Security.	The arrangements should be made to verify the accuracy of the advance balance.

## 1.7 Non-compliance with Laws, Rules and Regulations and Management Decisions

Reference to Laws, Rules and Regulations	Non-compliance	Comment of the Management	Recommendation
(a) Extra-ordinary Gazette No. 1653/7 dated 10 May 2010 with regulations made under Section 31 read with Section 18 of the conventions against Illicit Traffic in Narcotic Drugs and Psychotropic Substance Act, No. 1 of 2008 read with paragraph (2) of Article 44 of the Constitution			
i Part IV Registration of premises Regulation 9	Every Licensee should register the premises where the activities relating to the import or export of the substances are carried on with the Authority within one month from the date of the issue of Licence, and 16 premises had been registered and the licenses had been issued for 10 premises. The members of the authority should come and supervise the activities of the registered premises of the licensee at least once every 3 months, and check the way the materials are stored and the equipment are used, how the books, documents, registers and reports are maintained. However, only 51 premises of 91 licensed importers had been	The two officers serving in the Precursor Control Authority could practically inspect 51 premises of the import license holders and since it was the maximum capacity of those two officers, the remaining premises can be inspected after filling the existing employee vacancies.	The proceedings should be done as per the provisions stipulated in the Act.



		inspected in the year 2023.	
ii	Part VI Dealers and End Users	The end users who intend to sell or use the specified substances should make an application for registration to the Authority. The records had not been entered into a separate data system facilitating to observe the documents of obtaining licenses and registrations in the year 2023.	Although data systems have been developed, it has been difficult to update those properly with a limited staff. However, all the data are entered into separate books and those are maintained as documents.
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iii	Regulation Paragraph 5	Although the Authority should appoint a Secretary and other officers and servants as may be necessary for the exercise, performance and discharge of the powers, duties and functions of the Authority, the arrangements have not been made to recruit the necessary staff for the authority until the end of 2023, and only two officers of the National Dangerous Drugs Control Board had been attached.	The post of Secretary that had been approved for the Precursor Control Authority by the Letter No. DMS/1683/Vol –III dated 11.01.2017 has been removed, and the post of Chemist has been changed to Deputy Director / Assistant Director - Precursor Chemicals. The interviews for the recruitment of 05 scientific officers have been completed and after making the said recruitment, those officers are to be attached to the Precursor Control Authority of the Board.
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(b)	The paragraph of Regulation No.8 and the paragraph of Regulation No.10 of the Conventions against Illicit Traffic in Narcotic Drugs and Psychotropic	Subject to the provisions of that Act, the Governing Board of the Authority had met only once in the year 2023 and the Governing Board of the Precursor Control	The matters had not arisen as adequate to take policy decision during this period, and since any board papers were not presented, the day-to-
			The proceedings should be done as per the Act.

Substance Act, No. 1 of 2008	Authority had not even held the minimum number of meetings in order to review its functions by the members of the Governing Board of the Precursor Authority in accordance with the paragraph 10 of the regulations.	day activities of the institution continued smoothly. Therefore, there was no need of meeting the committee, and the meetings have been held and the necessary decisions have been taken at every occasion of such requirements.		
(c) Regulation No. 2 of the Gazette No. 1653/19 dated 12 May 2010 issued incidental to the Drug Dependent Persons (Treatment and Rehabilitation) Act, No. 54 of 2007	Although a centre for the purpose of looking after and rehabilitating the drug addicted persons cannot be operated without obtaining a license as per the regulation, there were 26 private treatment centres in the country and 13 private rehabilitation centres had not applied for the security clearance to update the registration of the license.	The licenses for private rehabilitation centres are provided only after the confirmation is made from the Department of Police to the effect that the related security clearance reports are free of complications. Consequently, the security clearance report for giving licenses to 13 private rehabilitation centres in the year 2023 has not been received so far. The Ministry of Public Security has been informed on this matter and upon the receipt of the reports, the licenses will be granted to the remaining 13 private centres.	The proceedings should be done as per the regulations made in accordance with the provisions of the Act.	
(d) Financial Regulation of the Democratic Socialist Republic of Sri Lanka	1. Financial Regulation 880	The officers who are required to furnish security deposits in the institution have not been	Although the public officers should furnish security deposits under the	The proceedings should be done as per the financial regulations.

identified (Chapter 612), chapter 612 of the and the security deposit Security Ordinance as stipulated in the had not been furnished as per the Public Officers' Financial Regulation Security Ordinance. 880, this cannot be practically done. There is no post of cashier in the approved cadre of the board and management assistants are in charge of cash collection and petty cash payments. Since it is an additional duty assigned to them, it is impossible to order to furnish securities.

- (e) Implementation of the Insurance Scheme
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| <p>The insurance benefit system with the Sri Lanka Insurance Corporation; implemented on the approval of the Director Board Decision No. 4.616 in the year 2011, had been suspended due to the lack of financial provisions in the year 2022. The agreement for the insurance benefit system had been entered into with a private insurance company selected by calling quotations within the limit of the budget allocation of Rs.5 million in the year 2023 for an annual value of Rs.5,677,525 as the premium value for one employee is Rs. 26,645 and covering a total of</p> | <p>The Employee Insurance Scheme existed for more than 10 years. As the contribution to be paid for the insurance for the year 2022 is also higher than the quotations given earlier, it was referred to the procurement committee to carry out the procurement activities in order to select another representative with the same privileges. However, this insurance cover could not be obtained in the relevant year due to the change of chairpersons for the procurement and ending the current</p> | <p>The approval from the Board of Directors and the Budget Department of the General Treasury should be obtained for the insurance scheme.</p> |
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597 members with the family members of 201 employees who have completed one year in the board related to the period from 1 October 2023 to 30 September 2024. Any financial contribution had not been received from the officials of the board for this, and a sum of Rs. 2,071,063 had been obtained from the insurance company as insurance benefits for the employees as at the date of audit. However, the approval from the Budget Department of the General Treasury and the Board of Directors for the new insurance scheme had not been obtained.

financial year during the execution of procurement activities. However, the procurement activities have been carried out again within the subsequent year. Since the approval had been granted to provide health insurance to the officers of the board as per the decision of the 348<sup>th</sup> board meeting held on 30.03.2011, a board paper was not submitted for approval again.

**2. Financial Review**

**2.1 Financial Results**

The operations of the Board during the year under review had resulted in a deficit of Rs. 2,248,627 as compared with the deficit of Rs. 48,359,337 of the preceding year, thus observing an increase of the deficit by Rs. 46,110,710 of the financial result. This increase was mainly attributed to the increase in the contribution of the government by Rs. 28, 867,000 and the increase in other varied revenues by Rs. 15,500,560 compared to the preceding year.

**3. Operation Review**

**3.1 Management Inefficiencies**

Audit Observations	Comments of the Management	Recommendation
The intended use of the land in Pitipana, Homagama, which has been obtained on 30 April 2014 for Rs.4,085,018 on thirty-year lease basis, had not been notified to the Urban Development Authority even a period of 8 years has been passed, and the deed of lease related to the land had not been obtained even	A project proposal to construct a residential treatment centre or counselling centre under the public private partnership was prepared, and the necessary steps	The actions should be taken to use this land for a productive purpose.

by 30 April 2014. This land remained idle without being used for a productive task.

have been taken to construct a building by presenting the above proposal with a request to the private and non-governmental organizations. The arrangements are being taken to acquire this land.

### 3.2 Operational Inefficiencies

Audit Observations	Comments of the Management	Recommendation
<p>(a) Although this centre includes a building worth about Rs.12,800,000 built with the personal donation of a monk and a building worth Rs.7,844,963 that had been built on the aids of an international organization as being equipped with all the furniture and equipment enabling to be used for emergency and rehabilitation purposes, the said building remained idle without being used for the rehabilitation of the drug addicted persons in the year 2023. These buildings have been constructed and handed over to the Board in the year 2021, and not taking actions to have the required infrastructure facilities and the staff was the reason for that situation.</p>	<p>The vacancies could not be filled as the recruitment was temporarily stopped according to the National Budget Circular of the Finance Ministry. As per the approval of the Prime Minister’s Staff Review Committee and the approval received in the board meeting held on 22.09.2023, the activities required to fill the vacancies are being carried out.</p>	<p>The buildings and furniture received as donations should be used for productive activities.</p> <p>The steps should be taken to carry out the amendment activities of the Act immediately.</p>
<p>(b) Although the approval had been granted by the Cabinet Paper CP/21/2279/303/176 at the Cabinet Meeting held on 24 January 2022 to amend the Drug Dependent Persons (Treatment and Rehabilitation) Act No. 54 of 2007, the actions had not been taken to complete the amendment activities related to the Act and to present it to the Cabinet of Ministers.</p>	<p>This Act is amended by the Ministry of Justice and the final amended draft has been prepared and presented by the Legal Draftsman. Subsequent to the corrections, it has been referred to the Ministry of Justice and Legal Draftsman Department on 05.02.2023 together with its English translation.</p>	

### 3.3 Human Resource Management

#### Audit Observations

The approved staff; including the head office and the provincial offices, was 374 as at 31 December 2023, and the actual number of employees was 205. Consequently, the number of vacancies was 169. Although the applications for recruitments have been called in the year 2023 to fill the 29 vacancies in relation to six posts, the recruitment has been done for the post of Director (Finance) and the steps had not been taken to speed up the recruitment activities for the post of Director General and Director (Administration).

#### Comments of the Management

The approved number of employees of the board is 374. (The 33 provincial offices are also included therein) As per the Gazette dated 03.11.2023, the approval of the Board has not been received for the officer selected for the post of Director General. According to the approved recruitment procedure for the post of Director (Administration), no suitable applicant had been submitted applications. One officer was selected for the post of Board Secretary/ Legal Officer and the said officer refused to assume the duties. 5 persons have been selected for the post of Scientific Officer and the appointments are to be given on 13.06.2024. The matter has been referred to the Police Examination Division to conduct the competitive examination for the recruitment of Counselling Assistant Officers.

#### Recommendation

The steps should be taken to expedite the recruitment activities for the posts including the post of Director General and Director (Administration).

4. **Accountability and Good Governance**  
 4.1 **Annual Action Plan**

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) According to the data about the physical progress presented as per the Action Plan of the National Narcotics Laboratory to productively give effect to the law against the production, transporting, selling and using illicit drugs, there was one proposed program with no progress in the year 2023, 3 programs of which the progress was between 50-75 percent and 5 programs having the progress between 50 – 25 percent.	Inability to coordinate institutions, lack of competent scientific staff in the narcotics laboratory, not sending the samples from the relevant institutions for analysis, lack of provisions, Non-receipt of testing kits by the laboratory were the reasons for the low progress.	When the programs are planned in the Action Plan, the financial provisions and the other related organizational activities should be planned and the proceedings should be done to achieve the expected goals.
(b) 04 programs out of 26 programs in the Corporate Plan of the Preventive Education and Training Division; implemented to prevent the children and youth from resorting to drug use, had achieved less than 75 percent of the physical progress.	The absence of adequate staff, lack of financial provisions, stopping exhibitions organized by the government were the reasons for low progress.	When the programs are planned in the Action Plan, the financial provisions and the other related organizational activities should be planned and the proceedings should be done to achieve the expected goals.