

National Dangerous Drugs Control Board - 2014

The audit of financial statements of the National Dangerous Drugs Control Board for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and the statement of income and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 12(4) of the National Dangerous Drugs Control Board Act, No. 11 of 1984. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

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

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub - sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Dangerous Drugs Control Board as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The statement of changes in net assets/equity had not been prepared and submitted along with the financial statements for the year under review as required by Sri Lanka Public Sector Accounting Standards-01.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Recurrent Grant amounting to Rs.1,590,000 received during the year under review for the activities of the Board had been accounted as grant received for Precursor Control Authority.
- (b) Accounts payable aggregating Rs.176,622 as at end of the year under review had not been brought to accounts.
- (c) Un reconciled balances of employee debtors amounting to Rs.179,392 and expenses incurred on behalf of Precursor Control Authority aggregating Rs.301,498 had been erroneously accounted as prior year adjustments.
- (d) As a practice, the capital grant received from the General Treasury is treated as Capital Reserve without being identified the intended purpose of the grants. As a result, the capital grant received to procure the property, plant and equipment had not been amortized according to the life times of such assets.

2.2.3 Un-reconciled Control Accounts

The debtor balances aggregating Rs. 9,416,116 shown in the Ledger Accounts had not been agreed with the detailed schedule for debtors amounting to Rs. 9,395,181 furnished for audit.

2.2.4 Accounts Receivable

The following observations are made.

- (a) The sundry advances aggregating Rs.1,906,010 shown in the financial statements had comprised with 16 balances valued at Rs.1,782,060 which remained unrecovered for more than 10 years.
- (b) Age analysis in respect of deposits amounting to Rs.356,813 had not been prepared and furnished for audit. Further, the Board had not possessed the receipts of deposits valued at Rs.295,313 made in 18 outside entities indicating that the possible risk on encashment of such deposits.

- (c) Confirmations had not been received directly from bank and submitted for audit purposes in respect of bank balances amounting to Rs.8,386,750 remained at the end of the year under review.

2.5 Non – compliance with Laws, Rules, Regulations and Management Decisions etc.

The following instances of non-compliances were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions

Non – compliance

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| (a) Section 4(3) of the Drug Dependent Persons (Treatment and Rehabilitation) Act, No 54 of 2007. | Periodical reports required to be furnished by the Director of Treatment and Rehabilitation Centres in relating to successfulness of the treatments made by the private treatment Centres had not been furnished. |
| (b) Section 5 of the payment of Gratuity Act, No. 12 of 1983 as amended by Act, No. 62 of 1992 | A sum of Rs. 524,351 had been paid in three instances to the employees of the Board to whom the Gratuity is payable during the year under review with the delay of period ranging from 18 to 194 days. |
| (c) Paragraph 9.1 and 9.1.1 of Section II of the Establishment Code of the Democratic Socialist Republic of Sri Lanka. | Prior approval of the Cabinet of Ministers should be obtained to get the services of retired officers of government institutions. However, four officers who retired from public service of the managerial positions had been assigned to the Centres of the Board as managers, without being obtained the approval form Cabinet of Ministers. |
| (d) Financial Regulations- 109(1)(b) | Losses on assets belonging to the Board had not been reported to the Auditor General even though the two vehicles of the Board had met with accidents in two |

occasions during the year under review.

(e) Treasury Circular No 842 of
09 December 1978

A fixed assets register for the property, plant and equipment valued at Rs. 81,166,499 as at the balance sheet date had not been maintained in updated manner.

3 Financial Review

3.1 Financial Results

According to the financial statement presented, the operations of the Board for the year under review had resulted in a deficit of Rs.15,906,625 as compared with the corresponding deficit of Rs.6,446,755 for the preceding year, thus indicating a further deterioration of Rs. 9,459,870 in the financial results. The increase of depreciation by Rs. 5,060,685 due to revaluation of motor vehicles was the main reason attributed for the deterioration in the financial results for the year under review.

4. Operating Review

4.1 Performance

The following observations are made.

(a) According to the progress report of the Research Unit of the Board for the year 2014, the persons arrested on drug related matters in recent past four years had been increased significantly as described below.

Year	Number of Persons Arrested		
	Female	Male	Total
2010	304	29,492	29,796
2011	359	42,144	42,503
2012	706	47,220	47,926
2013	160	65,838	65,998

Further, according to the information published by the Police Narcotic Bureau, 73.57 kgs of Heroin, 24.60 kgs. of Cannabis and 0.19 kgs. of Hashish had been seized in 2014. It indicates that the need of strong policy measures against fast growing trend in drug addiction in urban and semi-urban areas in the country.

- (b) The Board had involved in rehabilitation of drug dependent persons through four Service Centres. The number of persons who obtained indoor treatments from the Service Centres and the particulars on expenditure for the year under review as compared with two preceding years are given below.

Service Centre	Number of Persons who Obtained Indoor Treatments		Average Number of Persons Treated Monthly		Total Expenditure (without staff salaries)		Monthly Average Expenditure per Person		
	2014	2013	2014	2013	2014	2013	2014	2013	Increase
					Rs.	Rs.	Rs.	Rs.	Rs.
Urapola	357	390	30	33	5,538,644	4,738,867	15,385	11,966	3,419
Thalangama	279	513	23	43	4,992,709	4,986,098	18,090	9,662	8,428
Kandy	113	82	9	7	3,110,509	2,010,909	28,801	23,939	4,862
Galle	168	207	14	17	4,816,715	4,025,884	28,671	19,735	8,936
Total	<u>917</u>	<u>1,192</u>	-	-	<u>18,458,577</u>	<u>15,761,758</u>	-	-	

According to the above information, the indoor treatments had been provided for 917 persons during the year under review as compared with 1,192 persons in 2013. The Kandy Centre had treated only for 113 persons in 2014 as compared with other centers, thus indicated the higher average cost of Rs. 28,801 per person in 2014.

- (c) In addition to the indoor treatments, the Board had provided counseling services for the drug dependent persons. In this connection, counseling

services had been provided for 1,700 persons in 2014 as compared with 2,021 persons in 2013.

- (d) In addition to the four Rehabilitation Centres managed by the Board, 12 other Rehabilitation Centres are also managed by other Non-Governmental Organizations. However, information relating to the persons treated by such Centres was not made available for audit due to non submission of periodical reports by those Treatment and Rehabilitation Centres to the Board.

4.2 Precursor Control Activities

The following observations are made.

- (a) According to Section 18 of the Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, No 1 of 2008 and the provisions made under the Extraordinary Gazette No 7/1653 of 10 May 2010, the Minister shall appoint a person or a body of persons as the Precursor Control Authority, who shall be in charged with the responsibility of administrating the provisions of this part of the Act. Therefore, a separate entity for Precursor Control activities had been established and allowances aggregating Rs. 421,000 had been paid to the Chairman and other persons who involving in duties of the Authority. Nevertheless, no separate staff had been assigned instead temporary assignees and other staff of the Board to cover up the duties of the Authority. According to the explanation made by the Chairman of the Board at the discussion held with the officials of the Auditor General’s Department on 10 April 2015, it was stated that action had been taken to clarify from the Attorney General whether the Precursor Control Authority is to be treated as a separate body or as a separate unit of the Board.
- (b) The main objective of the Precursor control Authority is to identify, control and stop the misuse of precursor chemicals that have been used to produce drugs artificially and circulated to abuse. However, no evidence had been made available regarding the preventing actions taken to identify, control and stops such activities by the Authority.

- (c) It was observed that, 108 license and 490 registration certificates had been issued by the Authority and a sum of Rs. 2,708,500 had been earned thereon during the year under review. The total expenses of the Authority amounted Rs. 2,705,342 and out of that Rs. 1,905,745 representing 70.44 per cent had been spent to meet the expenses such as salaries, allowances and the travelling of the Authority.

4.3 Management Inefficiencies

The following observations are made.

- (a) Instances of unauthorized exits of the drug abusers from the Treatment Centres were regularly reported and adequate action had not been taken to avoid it. According to the explanation of the Board, unauthorized exits of Treatment Centers by detainee are a regular feature and the Board is unable to take precautionary actions due to lack of financial allocation to maintain a security service.
- (b) According to the information received, 716 complaints had been received against the drugs abuses to the Board, through the dedicated telephone line from 09 April to 31 December 2014, and transferred such information to the Police Narcotic Bureau and the relevant Police Stations for further investigations. However, it was observed that only 124 complaints had been investigated by the respective agencies even as at 28 February 2015.

4.4 Idle and Underutilized Assets

The following observations are made in this connection.

- (a) The land at Urapola with an extend of 18 acres owned to the Board with a coconut cultivation and other crops had not been treated as a source of income of the Board. Lower seasonal yields had been reported as per records maintained by the Board, thus indicating that the cultivation had not been properly maintained.

- (b) A Generator valued at Rs. 5,040,972 procured on 19 March 2014 had been located at the Head Office of the Board. According to the meter readings, the Generator had been used only 7 hours since its installation up to 10 March 2015, Further a separate log book had not been maintained for the maintenance purposes of the Generator.

4.5 Matters in Contentious Nature

The following observations are made.

- (a) Even though the security service for the office of the Board is provided by the officers belongs to Civil Defense Corporation, the security services for the residence of the ex-Chairperson is obtained separately from two security officers of government owned security firm by incurring an additional cost of Rs. 1,446,092 to the Board since 2012 up to 2014 without a proper approval.
- (b) The land at Homagama, Pitipana estate with an extend of 40 perches had been acquired from the Urban Development Authority under lease basis for 30 years in order to establish a Center for Injecting of Drug Users whilst 90 per cent of the lands owned to the Board located at Urapola and Handessa remained under-utilized by the Board without considering the possibility of utilize the such lands for the respective purposes.
- (c) The Board of Directors had decided at the meeting held on 26 September 2014 to Locate the LED Video Screen in front of the Head Office building of the Board at a cost of Rs.5,055,120. According to the Chairman of the Board, the main objective of locating a LED Video Screen at the Head Office premises is to display drug preventive messages to the general public using modern communication techniques. Apart from that the Board had expected to earn some income by displaying advertisements on this screen. However, it was observed that the screen is located at corner of the premises and not attractive enough to get public attention.

4.6 Legal Cases Filed Against the Board

The following observations are made.

- (a) As per the letter No.Gen/Dms/E3/05/04/006/1 dated 13 October 2008 of the Department of Management Services (DMS), the post of Executive Director of the Board had been upgraded as the post of Director General. According to the Scheme of Recruitment (SOR) approved by the Department of Management Services, the post of Executive Director was abolished. However, former Chairperson had issued a letter on 20 September 2013 stating that the present Director General of the Board had been demoted and returned to the post of Executive Director with effect from 01 July 2008. The Executive Director had filed a case against the Board at the Supreme Court for violation of Fundamental Rights.
- (b) The vacancy for the post of Assistant Director for Treatment Centers had been filled internally in November 2014 and a fundamental right case had been filed by an applicant against the Board on recruitment procedure adopted.

4.7 Human Resources Management

The following observations are made.

- (a) It was observed that the Board had run with vacancies in 06 key posts in senior and tertiary levels and 39 posts in secondary level. Even though the paper advertisements for recruiting suitable persons for the posts of Assistant Finance Director, Internal Auditor, Librarian and other staff had been published in several occasions during the year under review by incurring a sum of Rs.754,936 such vacancies had not been filled even at the end of the year under review.
- (b) It was observed that services from 35 persons had been obtained continuously on assignment basis without being taken action to fill the vacancies permanently.

4.8 Financial Management

Out of the advances aggregating Rs.389,760 granted in 41 instances in the year under review, a sum of Rs.151,205 representing 17 to 100 per cent of the advances had been settled by cash without being utilized for the intended purposes. Further, the unsettled balances of advances had remained in hand of the employees of the Board for a period of ranging from 14 to 150 days.

5. Accountability and Good Governance

5.1 Action Plan

The methodology to measure the actual performance on activities set out in the action plan had not been introduced and therefore, the action plan had not been periodically reviewed in proper manner.

5.3 Procurement Plan

The following observations are made, in this regard.

- (a) Capital items, such as Land, Vehicles and Computers procured at a cost of Rs.2,946,362 representing 97.34 per cent of the procurements made during the year under review had exceeded the estimates amount of Rs. 1,492,000 made in the Annual Procurement Plan.
- (b) Capital items procured at a cost of Rs. 14,161,253 were not included in the Annual Procurement Plan of 2014.
- (c) Government Procurement Procedures had not been followed for the procurement of computers and a vehicle valued at Rs. 2,472,938 and Rs.7,995,000 respectively.

5.4 Internal Audit

A separate Internal Audit Unit had not been established by the Board and the audit activities were carried out by the Internal Audit Division of the line Ministry.

However, neither the Internal Audit Program nor the internal audit reports had been submitted to the Auditor General.

5.5 Budgetary Control

Variations at the ranging from 10 per cent to 100 per cent or more than that had been observed between the budgeted and actual figures for the year under review, thus indicating that the budget had not been made use of an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Utilization of Rehabilitation Centers
- (c) Control over Assets
- (d) Stock and Inventory Control
- (e) Cash Management
- (f) Maintenance of Vehicle
- (g) Control over Expenditure
- (h) Attendance and Staff Leaves