

National Authority on Tobacco and Alcohol - 2019

1.1 Qualified Opinion

The audit of the financial statements of the National Authority on Tobacco and Alcohol for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 2019 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

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

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

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, 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 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. 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 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Authority is required to “devise and maintain” a 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

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a) In terms of paragraph 48 of the Sri Lanka Public Sector Accounting Standard 1, revenue and expenses shall not be set off unless required or permitted by a Sri Lanka Public Sector Accounting Standard. Nevertheless, the expenditure of Rs.104,650 incurred on publishing newspaper advertisements had been set off against non-refundable deposit revenue and shown in the financial statements.	The said matter has already been taken in to consideration and necessary action in terms of the Standard will be taken in due course.	Action should be taken in terms of the Standard. The said error should be rectified in the preparation of financial statements for the year 2020.
(b) According to the paragraph 47 of the Sri Lanka Public Sector Accounting Standard 3, material prior period errors should be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for prior period presented in which the error occurred. Nevertheless, the error of not accounting during each year, the sum of Rs.32.88 million received to the Authority from the World Health Organization and the Smokeless Tobacco Bloomberg (STB) Project during the period from the year 2016 to 2018 and the expenditure of Rs.24.65 million incurred therefrom, had not been rectified retrospectively and instead, it had been adjusted to the accumulated profit and subsequently, the financial statements had been prepared for the year under review. Moreover, the error of identifying a sum of Rs.129,323 as creditors as at 31 December 2018 which should be identified as a revenue of the preceding year had been rectified in the year under review without restating the comparative amounts.	Necessary action in terms of the Standard will be taken in due course.	Action should be taken in terms of the Standard. The said error should be rectified in the preparation of financial statements for the year 2020.

- (c) In terms of the Sri Lanka Public Sector Accounting Standard 14, details relating to the transactions entered into by the members of the Board of Directors with private parties and who hold posts in Government institutions and related parties had not been disclosed in the financial statements.
- Action had already been taken to obtain such information from the new Board of Directors appointed in the year 2020 and action will be taken to disclose the details relating to the transactions entered into by the members of the Board of Directors with private parties and who hold posts in Government institutions and related parties, in the financial statements to be prepared in due course.
- (d) In terms of Sri Lanka Public Sector Accounting Standard 19, action had not been taken to create an asset for payment of employee gratuities, to calculate the present value of the employee gratuities to be paid to the employees in future by an actuary and if there is an actuarial loss or profit as compared to the fair value of the asset, to recognize such amount in the accounts.
- Provision for gratuity has been made and necessary action will be taken to calculate the present value of the gratuities to be paid to the employees in future and to make necessary arrangements.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Provision had not been made for audit fees amounting to Rs.2.48 million payable in respect of three preceding years as at 31 December 2018 and no provision had been made for the year under review as well.	According to the request made by the Authority from the Ministry of Health in respect of any revision in the audit fees payable for the year 2016 or regarding a grace period in case of such payment to be made, the Ministry of Health has forwarded the said request to the Auditor General while	Payment should be made as per invoices issued for the audit fees of the year 2016 until the replies were received for the request made on audit fees and the provision for subsequent years should be made on the basis of audit

the Audit had not issued invoices for the recovery of audit fees for the year 2016 or subsequent years. As such, no provision has been made for audit fees.

fees relating to the year 2016. Attention thereon should be paid to Section 13(2) of the Finance Act, No. 38 of 1971. The said error should be rectified in the preparation of financial statements for the year 2020.

(b) The error of recognizing audio and video tapes costing Rs. 2.99 million as property, plant and equipment had been rectified by recognizing those assets as intangible assets in the year under review. Nevertheless, the fair value of those intangible assets had not assessed and disclosed. Instead, the balance of Rs.1.15 million in the Accumulated Depreciation Account for property, plant and equipment had been transferred to the Provision for depreciation Account on intangible assets.

Relevant adjustments will be made in the financial statements prepared in due course, according to the awareness made and instructions given by the Audit.

The said error should be rectified in the preparation of financial statements for the year 2020.

(c) A sum of Rs. 18.32 million received from the Smokeless Tobacco Bloomberg (STB) Project as at 31 December 2018 had been credited to the Capital Grant Account. Out of the said amount, a sum of Rs.3.16 million had been incurred as recurrent expenditure during the year under review. Nevertheless, an equivalent amount had not been identified as recurrent revenue, thus the deficit of the year had been overstated by a similar amount.

Relevant adjustments will be made in the financial statements prepared in due course, according to the awareness made and instructions given by the Audit.

The said error should be rectified in the preparation of financial statements for the year 2020.

1.5.4 Transactions without Authority

Details of Transactions without Authority	Comments of the Management	Recommendation
<p>(a) A request had been made by the Authority to print books for a programme scheduled to be conducted for intern medical officers from the Health Results Innovation Trust Fund with the expectation of improving quality and safety of medical treatments by producing self-satisfied internal medical officers, who provide optimum care for patients with proficiency and commiseration. The Programme had not been in compliance with the objectives of the Authority. However, the title of the Programme had been changed as the “Programme on capacity building of the Intern medical officers on the prevention and control of Tobacco and Alcohol” and the programme had been conducted without obtaining the approval of the Board of Directors by incurring a sum of Rs.739,446 out of the funds provided by the World Health Organization to the Authority.</p>	<p>The assistance was given after considering the matters mentioned in the letter submitted by including objective-bound proposals of the Authority and the title of the Programme had not been changed and resource persons of the Authority had given their contribution to the Programme by means of lectures and participation in the programme and the assistance of the Authority would be given only to Programmes that are complied with the objectives of the Authority after obtaining the prior approval of the Board of Directors, when the assistance of the Authority is sought for the conduct of such programmes</p>	<p>Only the Programmes, which are in compliance with the objectives of the Authority and for which prior approval of the Board of Directors is given, should be implemented.</p>
<p>(b) The total amount received from Smokeless Tobacco Bloomberg (STB) as at 31 December 2018 was Rs.18.32 million and 3 objectives had been identified for the implementation of the project. Only an amount of Rs.357,717 had been incurred in the year under review for the 3 objectives. However, a sum of Rs.572,260 had been incurred for Programmes, which were extraneous to those objectives and conducted by public as well as private institutions and organizations without obtaining the approval of the Board of Directors. Moreover, it was</p>	<p>Arrangements are being made to incur expenses related to the budgeted objectives in the accomplishment of functions by the Authority and to draw attention of the Board of Directors and to get their approval in relation to the requests made by public as well as private institutions for getting the</p>	<p>Only the Programmes, which are in compliance with the objectives of the Authority and for which prior approval of the Board of Directors is given, should be implemented.</p>

possible to pay only 17 per cent out of the total amount received from the project as salaries and allowances for the staffs, a sum of Rs. 7.03 million equal to 38 per cent out of the total amount received from the project had been incurred for that purpose.

assistance of the Authority.

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| (c) A sum of Rs. 370,000 had been paid to the Accountant of the Authority for 37 months at the rate of Rs. 10,000 per month from July 2016 for the maintenance of the accounts of the Smokeless Tobacco Project only on the approval of the Board of Directors and without obtaining the approval of the General Treasury. | Not commented. | Such allowances should not be paid without getting the approval of the General Treasury. |
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1.5.5 Lack of Documentary Evidence for Audit

----- Audit Observation -----	Comments of the Management	Recommendation -----
Documentary evidence required to verify the total sum of Rs.67,525 spent without a proper management for the conduct of a workshop for Public Health Inspectors and to produce a video on experiences of an drug addict who has overcome it, had not been made available.	Even though the attendance of participants is confirmed by the Authority through a telephone call or in writing before the conduct of a programme, the said programme has not been properly managed due to the lack of adequate staff, thus due attention of the Authority will be focused on the programmes conduct in future. Further, the changes made to the video tape produced on the experiences of an drug addict who has overcome it, have not been taken into consideration when making payments and action in terms of the agreement will be taken in due course.	Action should be taken with proper management in the implementation of programmes and in the execution of contracts as per agreements and every payment should be verified by documentary evidence.

1.6 Non Compliance with Laws, Rules and Regulations

Reference to laws Rules and Regulations ect.	Non Compliance	Comments of the Management	Recommendation	
(a) National Act on Tobacco and Alcohol No.27 of 2006	(i) Section 3(1)(b)	Even though an officer who holds a higher rank than a Senior Secretary of the Ministry of Justice should be appointed as a member of the Board of Management of the Authority, the said member had not been appointed even up to 11 March 2020.	A request was made to the parties concerned to appoint a person who hold a higher rank than a Senior Assistant Secretary of the Ministry of Justice as a member of the Board of Management.	Action should be taken in terms of provisions in the Act.
	(ii) Section 22 (2)	All sums received to the Authority by way of gifts, grants or donations from the Consolidated Fund and from within Sri Lanka or abroad, should be credited to the Fund maintained in favour of the Authority. Nevertheless, a sum of Rs.20.17 million received from the Consolidated Fund and as foreign grants as at 31 December 2019, had been credited to the Capital Grant Account without	All sums received in due course to the Authority by way of gifts, grants or donations from the Consolidated Fund and from within Sri Lanka or abroad, will be credited to the Fund of Authority.	-do-

being credited to the Fund maintained in favour of the Authority.

(b) Financial Regulation 625(3) of the Democratic Socialist Republic of Sri Lanka and the letter No.SC&PMU/Grant/19 of 25 July 2019 issued by the Director General of the Department of External Resources

The grants amounting to Rs.8.23 million provided by the World Health Organization had not been obtained through the Department of External Resources with the consent of that Department.

The foreign grants received to the Authority will be deposited in the Treasury and action will be taken as per the financial regulations in due course.

Action should be taken in compliance with the financial regulations and other relevant provisions.

(c) Circular No.SP/SB/07/15 of 15 September 2015 issued by the President's Office.

Even though State functions, seminars and workshops should not be conducted in luxury hotels at exorbitant costs, a sum of Rs.1.66 million had been spent on the conduct of seminars and workshops in luxury hotels contrary to the provisions in the said Circular.

Action will be taken not to conduct State functions, seminars and workshops in luxury hotels at exorbitant costs in due course as per the provisions in the relevant circular issued by the President's Office.

Action should be taken in compliance with the Circular.

(d) Public Enterprises Circular No. PED/12 dated 02 June 2003

(i) Section 5.2.3

Even though the budget for the year under review should be prepared including the statement of budgeted income and expenditure for the year ended 31

All activities in the Accounts Branch were carried out by the Accountant herself since several preceding years, thus there was no adequate time to perform the duties. Necessary

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December 2019, budgeted cash flow statement and the balance sheet as at that date, the budget had been prepared not in compliance with the circular provisions.

action will be taken in due course to recruit the officers required and to prepare and present the budget for the year in terms of the Circular.

(ii) Section 6.5.1

A draft annual report of the Authority had not been submitted along with the annual financial statements.

The reason therefor was the vacancy existed in the post of General Manager and action has been taken to recruit a permanent officer for the said post. Further, the draft annual report will be submitted along with the annual financial statements in due course without delay.

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(e) Paragraph 3.5 of the Public Enterprises Circular No. PED/1/2015 dated 25 May 2015

Even though the officers who are entitled to official assigned vehicles or a transport allowance are not permitted to use any other official vehicle including those in the vehicle pool, the Chairman of the Authority had used the motor vehicles belonging to the Authority for duty purposes and for travelling from and to home while obtaining the transport and fuel allowance.

Official vehicles have been used for the instances where the private motor vehicle could not be used due to unavoidable circumstances and action will be taken in due course not to provide official vehicles to the officers who obtain the transport and fuel allowances.

Action should be taken in compliance with the Circular.

(f) Public Finance Circular No. 01/2014 dated 17 February 2014	Updated organization structure of the Authority, details pertaining to the approved cadre and actual cadre, budget, master procurement plan, imprest requirement plan and internal audit plan had not been included in the Action Plan prepared for the year under review.	The Action Plan, details pertaining to the approved cadre and actual cadre, budget and the master procurement plan will be prepared and submitted to the Department of National Budget for necessary approvals at the beginning of the year. Further, action will be taken to submit the information on ensuing years as per the relevant Public Finance Circular.	-do-
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2. Financial Review

2.1 Financial Results

The operations of the year under review had resulted in a deficit of Rs.472,998 and the corresponding deficit of the preceding year was Rs.11,581. As such, an improvement of Rs.484,579 was observed in the financial result. Increase in the employees’ salaries and the increase in the expenditure incurred on programmes had been the main reasons for the said improvement.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
A sum of Rs.5.39 million had been spent by 31 July 2020 for the “1948 Counselling on Tobacco and Alcohol” commenced in the year 2017 with the intention of supporting tobacco addicts to overcome it and the service could not be provided continuously due to discontinuation of the said service from time to time. Inoperative condition in the system, failure to	Inoperative condition in the system, failure to update the service agreement on technical maintenance, lack of capital finance and leaving the service by Counsellors from time to time have affected the discontinuation of the said service and the counselling service will be maintained in due course in an updated manner.	The counselling service should be activate after a study on whether the said service could be effectively used.

update the service agreement on technical maintenance, lack of capital finance and leaving the service by Counsellors from time to time had been the reasons for the discontinuation of service.

3.2 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
Even though the Authority had identified the requirement of a staff with 30 posts for the performance of its function, approval of the Department of Management Services had been received only for 14 posts therein as at 31 December 2019. However, the actual cadre was comprised of only 11 officers as at 31 December 2019 while the lack of an adequate staff had been an impediment to duly perform the functions of the Authority. A sum of Rs.12.31 million had been paid during the four years from 2016 to 2019 as salaries and allowances to the staff with 25 officers who were recruited from time to time to the posts not approved by the Department of Management Services.	There was no adequate staff in the Authority to duly perform the most of the functions of the Authority. Action will be taken to make the recruitments to the posts approved by the Department of Management Services under the instructions and guidance of the new Board of Directors and further, obtaining approval and making recruitments for staff will be done only with the approval of the Department of Management Services in due course.	Proper action should be taken to obtain the approval and recruit an adequate staff to achieve the objectives and perform the functions of the Authority.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
(a) Six activities that is, designing a formula on taxation of tobacco and alcohol, conduct of awareness programmes for the Custom Officers and Excise Officers who implement the Act, reporting on the implementation of pictorial warnings, publication of a annual	A formula on taxation of alcohol will be designed and programmes for Excise Officers is scheduled to be conducted during the ensuing years. Further, quarterly reports on the implementation of pictorial health warnings is to be obtained	The Action Plan should be prepared based on the physical and human resources owned by the Authority and action should be taken as planned.

report, taking legal action against the persons who violate media policies and the implementation of the policy on single cigarettes which included in the Action Plans prepared for the preceding years and the year under review, could not be carried out even by 28 July 2020.

through Public Health Inspectors and even though it was necessary to take action by reviewing the progress based on the information so obtained, it could not be done accordingly due to the lack of staff.

- (b) Only the financial progress had been shown in the progress reports prepared for the year under review while the physical progress had not been shown.

The physical progress could not be reported due to the lack of adequate staff and specially, the progress could not be reviewed by giving necessary guidance and instructions due to the vacancy existed in the post of General Manager. Further, special attention of the Board of Management has been paid to streamline the affairs of the Authority by recruiting at least the essential minimum cadre in due course.

Financial and physical progress should be shown in the performance reports.

4.2 Internal Audit

Audit Observation	Comments of the Management	Recommendation
An internal audit on activities of the Authority had not been carried out for the year under review.	An internal audit had not been carried out after the year 2018 and a written request has been made on 13 July 2020 on carrying out an internal audit through the Internal Audit Unit of the Ministry of Health.	An internal audit should be carried out.

4.3 Audit Committees

Audit Observation	Comments of the Management	Recommendation
Even though 4 meetings of the Audit and Management Committee should be conducted during a year in terms of Section 7.4.1 of the Public Enterprises Circular No.PED 12 of 02 June 2003 on Good Governance, only one meeting had been conducted for the year under review.	The Committees could not be conducted due to retirement of the officers appointed to the Committee and the Board of Directors being dissolved after October 2019. Further, action has been taken to appoint the committee members for the current year on the approval of the Ministry of Health and the meetings will be held as per circulars in due course.	Action should be taken in compliance with the Circular.