NATIONAL DRUG COUNCIL

REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE 2025 AUDIT

MAY 2026

To help the public service spend wisely

TABLE OF CONTENTS

Introduction **1**

Auditor's responsibilities in relation to the audit **1**

Auditor's responsibility under International Standards on Auditing (ISAs) 1

Responsibilities of management and those charged with governance 2

Other information in documents containing audited financial statements **2**

Conduct, approach and overall scope of the audit **2**

Audit report, adjustments and management representations **2**

Significant findings from the audit **3**

Significant accounting practices 3

Management's judgments and accounting estimates 3

Going concern doubts 3

internal control MATTERS AND SIGNIFICANT FINDINGS 3

Fraud or illegal acts 3

Significant difficulties encountered during the course of our audit 4

Disagreements with management 4

Any other significant matters 4

Acknowledgements **4**

Appendix 1 – Summary of adjusted misstatements **6**

Appendix 2 – Internal control matters and significant findings **7**

REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2025 financial statements of the National Drug Council (the *"Council"*). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Council in sufficient time to enable them to take appropriate action. The matters we are required to communicate under ISAs include:

   - Auditors' responsibilities in relation to the audit
   - The overall scope and approach to the audit, including any expected limitations, or additional requirements
   - Relationships that may bear on our independence, and the integrity and objectivity of our staff
   - Expected modifications to the audit report
   - Significant findings from our audit.

2. This report sets out for the consideration of those charged with governance, those matters arising from the audit of the 2025 financial statements that we consider worthy of drawing to your attention.

3. This report has been prepared for the sole use of those charged with governance, and we accept no responsibility for its use by a third party. Under the *Freedom of Information Act* (*2021 Revision*), it is the policy of the Office of the Auditor General to proactively release all final reports through our website: www.auditorgeneral.gov.ky.

AUDITOR'S RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR'S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING (ISAs)

4. ISAs require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with

governance. Accordingly, the audit does not ordinarily identify all such matters, and this report includes only those matters of interest that came to our attention during the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter dated 12 August 2025. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

6. While we have no responsibility to perform any audit work on other information, including forward-looking statements containing audited financial statements, we have read the other information contained in the Council's annual report and noted that it is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Council. We have not reviewed other documents containing the Council's audited financial statements.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff and the nature and scope of the audit were outlined in the engagement letter presented to the Director and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. We have issued an unmodified audit report on the 31 December 2025 financial statements.

9. A summary of audit adjustments made to the financial statements is attached in Appendix 1. The audit did not result into any unadjusted misstatements.

10. As part of the completion of our audit, we obtained written representations from management on aspects of the accounts, judgments, and estimates made. These representations were provided to us on 21 April 2026.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Council's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

12. Generally accepted accounting principles provide for the Council to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are, however, not aware of any new or controversial accounting practices reflected in the Council's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. There were no matters which required management to make significant judgments or which required significant estimates.

GOING CONCERN DOUBTS

14. As a result of our audit, we did not become aware of any events and conditions that may cast significant doubt on the Council's ability to continue as a going concern.

INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

15. Significant internal control matters and findings are outlined in Appendix 2, along with management's response. In addition, certain deficiencies we did not deem significant were reported to management in a separate letter.

FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable acts and regulations rests with both those charged with governance of the entity and with management. It is important that management, under the oversight of those charged with governance, places a strong emphasis on fraud prevention and deterrence.

17. They are also responsible for establishing and maintaining controls pertaining to the Council's objective of preparing financial statements that are presented fairly, in all material respects, in accordance with the applicable financial reporting framework and managing risks that may give rise to material misstatements in those financial statements. When exercising oversight responsibility, those charged with governance should consider the potential for management to override controls or exert other inappropriate influences over the financial reporting process.

18. As auditors, in planning and performing the audit, we are required to reduce audit risk to an acceptably low level, including the risk of undetected misstatements in the financial statements due to fraud.

19. However, we cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.

20. No fraud or illegal acts came to our attention as a result of the 2025 audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

21. No difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT

22. We have had no disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

23. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

24. We would like to express our thanks to the staff of the National Drug Council for their help and assistance during the audit of this year's financial statements. This enabled us to provide an audit report within the agreed timetable.

Yours sincerely,

Patrick O. Smith CPA, CFE
Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTED MISSTATEMENTS

Number	Account description and adjustment details	Account Number	Debit	Credit	Identified by OAG/Client
1	Right of Use Asset			18,589.57	OAG
	Right of Use Asset – Acc Dep		2,474.64		
	Lease Liability – Current		6,028.54		
	Lease Liability		9,837.37		
	Depreciation Expense			2,474.64	
	Interest Expense		2,723.66		
2	Vacation leave		1,509.29		OAG
	Accrued Vacation			1,509.29	
3	Payroll Liabilities: TOIL		5,402.11		OAG
	TOIL (Time Off in Lieu)			5,402.11	
4	Unearned Revenue		30,576.34		Client
	Funds Due to Government			30,576.34	

APPENDIX 2 – INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
Non-compliance with Acts and Regulations					
1. The Board met less times in 2025 than the statutory minimum requirement Section 17(1)(a) of the Public Authorities Act (2020 Revision) (PAA) requires the Board of a public authority to meet at least once every three months. In 2025, the Council's Board met only once on 27 March 2025, which does not meet the PAA's minimum requirement.	**Risk/Implication** Non-compliance with the PAA. In addition, the Board cannot effectively perform its oversight role if it does not meet regularly. **Recommendation** The Board of Directors should meet at least quarterly as required by the PAA.	N	Y	The Council acknowledges the observation. During the 2025 audit period, Board member appointments naturally expired at 30 June 2025 and 31 December 2025 respectively, resulting in the Board not being quorate for a significant portion of the year. As Board appointments are administered through the responsible Ministry, the timing of appointments was outside of management's direct control. Notwithstanding this, management continued to	Completed – December 2025 (Board reconstitution) Ongoing – 2026 Board calendar in effect

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
				operate within its delegated authority to ensure continuity of operations, financial oversight, and delivery of the Council's mandate. Board appointments were regularised in December 2025, restoring quorum. Since reconstitution, Board meetings have resumed and a formal 2026 Board calendar has been established to support ongoing compliance with statutory requirements.	
Financial Management					
2. Deficiencies in calculating the budgeted figures	**Risks/Implication** Generating and accumulating surplus being inconsistent with	Y	Y	The Council acknowledges the observation and notes that the variance arose within the	Ongoing – Incorporated

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
The Council prepared its budget with the intention of recognising zero profit. As part of this process, the Council bills services based on the budgeted rate set out in the Purchase Agreement. However, our audit noted that the total amount recorded as revenue was $1.08m, of which $220k was recorded as a discount to cap their billings according to their appropriations amount of $863k for 2025, which gave the reported profit of $54k. The recurring variances between actual and billed revenue shows deficiencies in NDC's budgeting process.	the budget intent of breaking even (zero profit) **Recommendation** We recommend that the Council review and enhance its budgeting process to ensure it aligns more closely with its target of breaking even. Specifically, management should review the accuracy of its budgeting rate used in the Purchase Agreement to help improve financial planning, reduce the risk of misaligned revenue expectations, and support better decision-making regarding resource allocation.			context of the Purchase Agreement funding model, whereby services are costed using pre-determined rates and subsequently aligned to the approved appropriation. While the audit identified a reported surplus of $54K, the Council notes that the 2025 budget remained substantially aligned to actual operations, with an approximate positive variance of 2% for revenue and 3.7% for expenditure. Given that budgets are prepared significantly in advance, some operational variances are expected due to factors such as staffing changes, programme adjustments, vendor pricing	into 2026/2027 budgeting cycle

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
				fluctuations, and operational efficiencies. Notwithstanding, management recognises the importance of continued refinement of the budgeting and rate-setting methodology to further strengthen alignment between projected outputs, appropriations, and actual expenditure. To support this, the Council will continue to enhance: • in-year financial monitoring and forecasting; • Purchase Agreement rate reviews; and	

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
				• coordination with the Ministry during budget preparation processes.	