



NATIONAL DRUG COUNCIL

Report to those charged with governance on the 2024 audit

July 2025

*To help the public service
spend wisely*

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the December 31, 2024 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 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 financial statements for 2024 that we consider are 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 release all final reports proactively through our website: www.auditorgeneral.gov.ky.

AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR’S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING

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 which came to our attention as a result of the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE:

5. Management's responsibilities are detailed in the engagement letter to which this engagement was subject. 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, in documents containing audited financial statements, we have read the other information contained in the Council's annual report to consider whether such information is materially inconsistent with information appearing in the financial statements or our knowledge of the operations of the Council. We have not reviewed any other documents containing 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 signed by the Council on September 27, 2024, 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 unqualified auditor's report on the financial statements.
9. There were thirteen adjustments totaling \$81,439 that were made to the financial statements. A summary of the audit adjustments made to the financial statements is attached in Appendix 1.
10. There were no uncorrected misstatement arising from the audit.
11. We have obtained written representations from management in respect of our financial statement audit.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

12. 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. Generally accepted accounting principles provide for the Council to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are not aware of any areas where the significant accounting practices have changed from previous year or are not consistent with general industry practice. In addition, we are not aware of any new or controversial accounting practices reflected in the Council's financial statements.

13. Details of any significant findings from the audit are included in Appendix 2 along with management's response.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES:

14. Management was required to make significant judgments and estimates in respect of allowance for credit losses and depreciation.

GOING CONCERN DOUBTS:

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

MATERIAL WEAKNESSES IN INTERNAL CONTROL:

16. Significant deficiencies in internal controls are noted in Appendix 2. No other control deficiencies have been identified.

FRAUD OR ILLEGAL ACTS:

17. 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, with the oversight of those charged with governance; place a strong emphasis on fraud prevention, and fraud deterrence. They are also responsible for establishing and maintaining controls pertaining to the entity'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. In exercising oversight responsibility, those charged with governance should consider the potential for management override of controls or other inappropriate influence 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. 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.

19. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT:

20. No serious difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT:

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

ANY OTHER SIGNIFICANT MATTERS

22. Significant reliance on government outputs sold.

The ability of the Council to meet its mandate and capacity to sustain its operational expenditures are significantly reliant on continued Government support from services provided to Government.

ACKNOWLEDGEMENTS

23. We thank the management and staff of the Council for their cooperation and assistance during the audit of this year's financial statements.

Yours sincerely,



Patrick O. Smith, CPA, CFE
Auditor General

18 July 2025
Cayman Islands

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

OAG ADJUSTMENTS

	Account description	Debit (\$)	Credit (\$)
1	20612 Payroll Liabilities: TOIL	1,679	
	55006 TOIL		1,679
	To adjust for overstatement of TOIL		
2	20800 Accrued vacation	1,111	
	5503 Vacation leave		1,111
	To adjust for overstatement of Annual Leave		
3	20001 Unearned Revenue	30,576	
	11001 Funds Due from Government		30,576
	To reverse overpayment of 2023 Cabinet billings for reclassification		
4	11001 Funds Due from Government	30,576	
	20004 Fund Due to Government		30,576
	To record overpayment of 2023 Cabinet billings received from Ministry after 2023 was audited		
5	20000 Accounts payable	6,704	
	14017 Health Insurance		6,704
	To remove January 2025 insurance payable and prepayment		
6	20000 Accounts payable	1,575	
	15100 Office equipment - cost		1,575
	To remove initial addition of service contract incorrectly classed as fixed asset addition		
7	76004 IT maintenance & support	1,050	

	14000 Prepaid Expense	525	
	20000 Accounts payable		1,575
	To correct treatment of service contract classed as fixed asset		
8	20001 Unearned Revenue	5,299	
	40100 Donations received		5,299
	To fully recognize donation as revenue, received from Compass Media		
	Total	79,095	79,095

CLIENT ADJUSTMENTS

	Account description	Debit (\$)	Credit (\$)
1	17000 Accumulated depreciation	329	
	88001 Depreciation expense – Office furniture		329
	To correct duplicate entry at 12/31/2024		
2	17050 Accumulated depreciation – Computer equipment	33	
	88001 Depreciation expense		33
	To correct over depreciation on HP Elite Display Monitor		
3	55004 Wages	1,092	
	20503 Accrued expenses – Pension		1,092
	To provide for TOIL + Annual Vacation Payout amount to Programme Manager		
4	55008 Pension	57	
	20750 Accounts payable – Pension		57
	To adjust for pension component of Programme Manager vacation payout		
5	55007 Health insurance	833	
	20620 Health insurance deductions		833
	To expense withholding from Delisa Hernandez against health insurance expense		
	Total	2,344	2,344

Total	81,439	81,439
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APPENDIX 2 – INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Accepted by Management?	Management Response
<p>Deficiencies in the Council's Budgeting Process</p> <p>The Council prepared its budget on a full cost recovery basis with the intention of recognizing zero profit. As part of this process, the Council bills services based on the budgeted rate set out in the Ownership Agreement.</p> <p>However, our audit noted a significant variance in the reported profit of \$114,562 in 2024. This variance indicates potential issues with the accuracy of the budgeting process.</p>	<p>Risks/Implication: Inaccurate budgeting may result in overbilling the Cayman Islands Government for services produced by the Council.</p> <p>Recommendation: We recommend that the Council review and enhance its budgeting process to ensure it aligns more closely with its operational realities. Specifically, management should review the accuracy of its budgeting rate used in the Ownership Agreement due to the significant variances in actual results.</p> <p>This will help improve financial planning, reduce the risk of misaligned revenue expectations, and support better decision-making regarding resource allocation.</p>	<p>Accepted</p>	<p>Budgeting Process Review: The Council will undertake a comprehensive review of its budgeting process to ensure it aligns more accurately with operational realities. We will examine the budgeted rates used in the Ownership Agreement and make adjustments where necessary to reflect actual costs and services rendered. We understand that while a budget is a planned framework, external factors can lead to variances, particularly when budgets are prepared well in advance.</p> <p>Consideration of Unforeseen Circumstances: As noted by the audit, certain unexpected operational changes, such as unplanned resignations and delays in recruitment, led to personnel cost savings. These factors were not anticipated during the budget preparation phase, and we acknowledge that such circumstances are part of the fiscal reality faced by many public sector organisations. We will ensure that such factors are more clearly considered in future budget preparations.</p> <p>Improvement of Financial Planning and Monitoring: We are committed to improving the accuracy of future budgets by refining the budgeting model and incorporating better forecasting techniques. This will help align the budget more closely with the Council's operational needs and financial realities. In addition, we will</p>

			<p>implement more robust monitoring mechanisms throughout the year to ensure early identification of any variances and enable timely corrective action.</p> <p>Continued Commitment to Transparency and Financial Integrity: The Council remains dedicated to enhancing financial planning and ensuring that its budgeting processes are as accurate and transparent as possible. We will take proactive steps to improve our financial oversight and reporting, ensuring that the budget aligns more closely with operational needs while managing risks related to unforeseen events. We value the audit's insights and are committed to addressing the areas of improvement identified. Please let us know if further details are required, or if there are any additional recommendations we should consider in refining our approach.</p>
<p>TOIL and Annual Leave Policy Deficiencies.</p> <p>The Council has policies in place regarding Annual Leave and TOIL entitlements; however, these do not cover the payout of Annual Leave or TOIL.</p> <p>The Council made TOIL and Annual leave payouts to a senior staff member during the period, amounting to \$11k; however, the policy does not cover the terms and conditions of TOIL payouts.</p>	<p>Risks/Implication: The absence of clear policies regarding the payout of TOIL (Time Off in Lieu) and Annual Leave creates a risk of inconsistent practices, potential misunderstandings, lack of transparency and unauthorized payouts.</p> <p>Recommendation: To mitigate the risks associated with inconsistent practices and potential misuse of leave payouts, it is recommended that the Council updates and formalizes its TOIL and Annual Leave policy to include clear</p>	Accepted	<p>We recognise the importance of addressing the gaps in the policy and are taking immediate action to update and formalize the TOIL and Annual Leave policies to include clear terms regarding the payout process, including eligibility, approval procedures, and payout calculations.</p> <p>Specifically, the new policy will outline:</p> <ol style="list-style-type: none"> 1. Circumstances under which TOIL and Annual Leave can be paid out (e.g., termination, leave not taken during the year, transition to new roles). 2. The approval process for any payouts, ensuring that all such decisions are vetted through

	terms on payouts and the approval process.		<p>appropriate channels, including the Board.</p> <p>3. A clear framework to ensure that all leave entitlements are recorded and processed accurately, in line with the NDC's financial and operational needs.</p> <p>We are committed to enhancing transparency and ensuring that the updated policy aligns with best practices and provides a fair and consistent approach to leave management and payouts across all levels of staff.</p>
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