



## **NATIONAL DRUG COUNCIL**

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**Report to those charged with governance on the 2022 audit**

**May 2023**

*To help the public service  
spend wisely*

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# REPORT TO THOSE CHARGED WITH GOVERNANCE

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## INTRODUCTION

1. We have completed our audit of the 31 December 2022 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 2022 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](http://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. This audit was performed by a public accounting firm we have appointed to conduct the audit on our behalf.

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## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter signed by management on 9 February 2022 to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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## 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 to consider whether such information is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Council, and provided comments to management. When this is finalized, we will provide clearance to management to publish their annual report. We have not reviewed any 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 the public accounting firm's audit staff, and the nature and scope of the audit, were outlined in the Engagement Letter presented to the Board of Directors and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

## AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATION

8. We have issued an unmodified auditor's report on the 2022 financial statements.
9. One corrected misstatements in relation to this audit is attached in Appendix 1. There were no uncorrected misstatement arising from the audit.
10. As part of the completion of our audit we obtained written representations from management on aspects of the accounts and judgments and estimates made. These representations were provided to us on 29 April 2022.

## SIGNIFICANT FINDINGS FROM THE AUDIT

### SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Council 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, however, not aware of any new or controversial accounting practices reflected in the Council's financial statements.

### MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

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

### GOING CONCERN DOUBTS

13. 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.

### SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

14. In appendix 2, we report on matters of non-compliance with the Public Authorities Act and Procurement Act and Regulation.

15. In addition, we have identified one deficiency in internal controls during the audit which are outlined in a letter provided by the independent accounting firm together with our recommendation and management's responses but we have not audited the responses.

### 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, 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 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. 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.

17. 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.

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

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#### ANY OTHER SIGNIFICANT MATTERS

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

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

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

#### ACKNOWLEDGEMENTS

22. 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 has enabled us to provide an audit report within the agreed timetable.

Yours sincerely,



**Patrick Smith, CPA, CFE**  
Acting Auditor General



## APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

Account		Debit	Credit
DR	Accounts payable	379	
CR	Utilities (expenses)		379
<i>To reverse a payable and related expense that relates to 2023, incorrectly recognised too early in 2022.</i>			
DR	Audit and accounting fees (expense)	5,000	
CR	Accrued audit fees (payable)		5,000
<i>To recognise professional fees due to the Office of the Auditor</i>			

## APPENDIX 2 – SIGNIFICANT CONTROL DEFICIENCY

	Observation	Risk and Recommendation	Council's Response and Deadline
1.	<p><b>Number of meetings of the Board during the year did not comply with the PAA minimum requirement</b></p> <p>The Public Authorities Act requires governance bodies to conduct meetings once every three months. During the year 2022, the Council held two meetings only. Similarly, the Council only held three meetings in 2021.</p> <p>We have been told that the transition from one Chairperson to another played a part in missing of the Council.</p>	<p><b>Implication/Risk:</b></p> <p>Meeting regularly helps in setting the right tone at the top and providing oversight on the Council and its operations; therefore, failing this, could adversely affect the control environment pervasively.</p> <p><b>Recommendation:</b></p> <p>The Council members, led by the Chairperson, should ensure holding the meetings regularly, and comply with minimum requirement to hold one every three months.</p>	<p>The NDC acknowledges the identified deficiency outcome of the testing and will review current process as well as share these findings with the Board to ensure compliance with the requirements of Section 17(1) of the Public Authorities Act which requires the Board to meet at least once every three months.</p> <p>Kindly note that the NDC Board of Directors held its first two quarterly meetings on the 19<sup>th</sup> of January and 20<sup>th</sup> April 2023 respectively. Additionally, in accordance with the Minutes of the meeting of the Council, held on <u>20<sup>th</sup> January 2023</u>, the request was made to schedule and calendar all board meetings for the year. As such, the proposed 3<sup>rd</sup> Thursday of the first month of each quarter was agreed upon.</p> <p>Board meetings held:</p>

	Observation	Risk and Recommendation	Council's Response and Deadline
			<ul style="list-style-type: none"> <li>- 19<sup>th</sup> of January 2023</li> <li>- 20<sup>th</sup> of April 2023</li> </ul> Board meetings scheduled to be held: <ul style="list-style-type: none"> <li>- 20<sup>th</sup> of July 2023</li> <li>- 26<sup>th</sup> of October 2023</li> </ul>
2.	<p><b>Direct award did not comply with Procurement Act and Regulations</b></p> <p>Section 4 of the procurement regulations require entities to undertake a competitive process when procuring any goods, services or works except where it can be demonstrated that the procurement meets the criteria for the direct award process set out in regulation 5.</p> <p>NDC re-appointed its accounting services provider for two years beginning January 2022 on a per hour rate without competition, i.e. direct award. The contract is estimated at \$28,000, which means that a competitive process is required, unless</p>	<p><b>Risk/Implication:</b></p> <p>An entity that fails to comply with procurement framework:</p> <ul style="list-style-type: none"> <li>- does not set the right tone of good governance.</li> <li>- is unable to demonstrate whether it has achieved value for money for its spend on services.</li> </ul> <p><b>Recommendation:</b></p> <p>The Acting Director should supervise procurement activities and ensure that NDC goes through competitive procurement when required by the procurement</p>	<p>The NDC acknowledges your findings and will work to ensure that we utilize a competitive procurement process when required by the procurement framework for accounting services obtained.</p>

	Observation	Risk and Recommendation	Council's Response and Deadline
	there is an exception that can be demonstrated as required by section 5 of the regulation.	framework.	