

## **Sri Lanka National Freedom from Hunger Campaign Board - 2012**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka National Freedom from Hunger Campaign Board as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Comments on Financial Statements**

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##### **1.2.1 Accounting Deficiencies**

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The following deficiencies were observed.

- (a) The interest amounting to Rs.99,375 payable as at the end of the year under review on the loans amounting to Rs. 500,000 and Rs.2,000,000 obtained by the Board in the years 2011 and 2012 respectively from the Farmers' Trust Fund had not been brought to account.
- (b) The reimbursement of sum of Rs.179,703 given on the reimbursement basis for the Local Food Promotion Programme had been credited to the Income Account instead of being credited to the Debtors Account. As such the debtors balance had not been settled by that amount while the income as well had been overstated.
- (c) Action had not been taken to identify and settle the unidentified balance of Rs.57,000 brought to account under assets.

### 1.2.2 Accounts Receivable and Payable

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The following observations are made.

- (a) Action had not been taken for the recovery of the loans amounting to Rs.80,610 granted to 19 farmers in the year 2003 for the purchase of water supply machines.
- (b) Even though the sundry loans and advances amounting to Rs.42,080 obtained by 09 officers had been outstanding over a period of 10 years, the Board had failed to recover the money.
- (c) The value of Suwa Posha and Maw Posha packets obtained on loan basis in the year 2011 amounting to Rs.64,500 had not been settled even by the end of the year under review.

### 1.2.3 Lack of Evidence for Audit

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The evidence indicated against the following each items of account had not been furnished to audit.

<b>Particulars</b>	<b>Value</b>	<b>Evidence not made available</b>
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	<b>Rs.</b>	
Fixed Assets	18,771,491	(i) Board of Survey Reports (ii) Register of Fixed Assets
Balance Stock	629,866	(i) Stock Verification Reports (ii) Schedule (iii) Stock Books

#### **1.2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations, etc.</b>	<b>Non-compliance</b>
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(i) National Freedom from Hunger Campaign Act, No. 15 of 1973 Section 3(i) and (v)	<p>The Board had not taken action for the achievement of the following objectives.</p> <p>(i) Obtaining aid from the foreign and local agencies for the social and economic development in accordance with the development programme of the Government.</p> <p>(ii) For affiliation with the International Freedom from Hunger Campaign and other similar foreign institutions and associations.</p>
(b) Employees' Provident Fund Act, No. 15 of 1958 as amended by the Amendment Act, No. 2 of 2012	<p>Even though the contributions collected should be remitted before the thirtieth day of the month following surcharges amounting to Rs.179,625 had been paid for the failure to pay the contributions on the due dates in the year under review.</p>

(c) Public Enterprises Circular No. PED/12 of  
02 June 2003

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(i) Section 4.2.2

Action had not been taken to review the Corporate Plan and the budget with the actual performance data on a timely basis for taking action on variances.

(ii) Section 5.1.3

Even though the updated Corporate Plan for each year should be furnished to the Auditor General at least 15 days before the commencement of the year, action in terms of the circular had not been taken in the year under review.

(d) Treasury Circular No. 842 of 19 December  
1978

A Register of Fixed Assets had not been maintained in terms of the circular.

(e) Treasury Circular No. 1A1/2002/02 of 28  
November 2002.

A detailed register of computers and software had not been maintained in terms of the circular.

(f) Financial Regulations  
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(i) Financial Regulation 110

The Register of Damage and Losses had not been maintained.

(ii) Financial Regulation 177(1)

Even though the total amount of money received should be banked daily or as early as possible,

banking of the income of the Trade Stall at Dehiwala after the settlement of the expenses of the Trade Stall had been delayed by 02 days to 18 days.

(iii) Financial Regulation 371(2)(c)

Even though the advances granted should be settled immediately after the completion of the purpose, advances amounting to Rs.240,000 obtained by 08 officers in the years 2011 and advances amounting to Rs.626,725 obtained by 05 officers in the year under review had not been settled even up to the end of the year under review.

(iv) Financial Regulation 751(1) and 754

The Registers of Goods and the Stock Books of all the Projects implemented by the Board had not been maintained properly.

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the financial statements presented, the operations of the Board for the year under review had resulted in a deficit of Rs.8,142,953 as compared with the corresponding deficit of Rs.6,471,589 for the preceding year. The deterioration of the financial results for the year under review by a sum of Rs.1,671,364 as compared with the preceding year had been mainly due to the decrease of Rs.20,949,210 in the Government Grants and decrease of the income of the Board by a sum of Rs.7,043,561.

## 2.2 Analytical Financial Review

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Various steps of the financial results for the year under review and the preceding year are given in the following table.

	<b><u>For the year ended 31</u></b>	
	<b><u>December</u></b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
	<b>Rs.</b>	<b>Rs.</b>
Government Contribution	37,703,796	70,335,762
Other Income	14,700,055	21,743,616
Expenditure	45,846,749	76,807,351
Surplus/ (Deficit)	(8,142,953)	(6,471,589)
Current Assets	19,138,120	24,728,555
Current Liabilities	12,641,768	17,185,489

## 3. Operating Review

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### 3.1 Performance

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The following observations are made.

- (a) Even though a sum of Rs.6,590,370 had been spent in the year under review for the farms maintained on lands for which the Board is not having the legal title, those had incurred losses amounting to Rs.5,391,047. The targeted activities of the Projects proposed for implementation in those farms had not been completed

while the increase in the targeted expenditure percentage ranged between 28 per cent to 382 per cent.

<b>Project</b>	<b>Extent of the Land</b>	<b>Present Position</b>	<b>Expenditure for the year 2012</b>
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			-
			<b>Rs.</b>
Buttala Farm	10 Acres	Not cultivated since September 2012	1,629,037
Thanamalwila Farm	16 Acres	Provision not received since September 2012	1,268,272
Waddakachchiya Farm	125 Acres	Transferred to Department of Civil Security since November 2012	3,693,061
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			6,590,370
			=====

- (b) Four farms maintained from the funds of the Board had incurred a loss of Rs.4,893,288 in the year under review.
- (c) The Fruit Drink Production Project at Wilamulla commenced without carrying out a feasibility study of the market and the industry had ceased its operations due to incurring a loss of Rs.541,040 during the year under review.
- (d) Preliminary expenses amounting to Rs.520,729 had been spent without the approval of the Board of Directors for the construction of a rice flour noodles factory at a cost of Rs.8,789,750 on a land without the legal title to the Board.

That project had to be abandoned later due to the non-receipt of the approval of the Cabinet of Ministers.

### **3.2 Management Inefficiencies**

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The following observations are made.

- (a) Even though the loan of Rs.5,020,833 obtained in 04 instances from the Farmers' Trust Fund should have been paid in full in the year 2013, only a sum of Rs.479,167 of the loan had been repaid during the year under review.
- (b) The Farm at Waddakachhiya had been transferred to the Department of Civil Security since November 2012 and action had not been taken even up to 30 October 2013 either for the takeover of the paddy harvester valued at Rs.1,545,000 belonging to the Board or for the recovery of its value.
- (c) The following directives made by the Committee on Public Enterprises at the meeting held on 01 October 2012 had not been implemented.
  - Present the Amended Act to Parliament
  - Reconstruction of the Indikatuwewa and Weliwewa abandoned without repairing
  - Elimination of the unidentified balances included in the financial statements
  - Obtaining approval of the Board of Directors for Projects
- (d) Even though it had been planned to distribute the Nutrition Bags produced under the Programme for Supply of a Nutrition Bag to Expectant Mothers through the Department of Commissioner General of Samurdhi 3,263 Nutrition Bags valued



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at Rs.1,631,500 had been distributed by the Department of Commissioner General of Samurdhi as at 31 December 2012 without entering into the proposed Memorandum of Undertaking between the two parties.

### **3.3 Transactions of Contentious Nature**

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A contract valued at Rs.2,548,050 had been awarded without the approval of the Board of Directors for the construction of a fence and a gate on a land with no legal title to the Board. As the payment had not been made to the contractor a firm of Legal Consultants had sent a letter of demand claiming a sum of Rs.3,209,728 being the total expenditure inclusive of additional work.

### **3.4 Idle Assets**

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The following observations are made.

- (i) The following machinery had been kept in the stores of the Kalankuttiya Rice Flour Processing Centre without being operated.

<b>Particulars</b>	<b>Quantity</b>	<b>Idle Period (Years)</b>
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Rice Flour Production Machines	02	01
Flour Sifters	01	01
Motor – 15 Horse Power	01	01
Oorid Dhal Grinders	01	05

- (ii) The following goods purchased at the beginning of the year under review for the Suwandel Slow Food Project had been idling.

<b>Particulars</b>	<b>Quantity</b>	<b>Value</b>
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		<b>Rs.</b>
Electric Kiln	02	152,872
Pastry Machine	01	340,000
Pastry Mixer	01	187,520
Bread Slicer	01	112,500
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		792,872
		=====

### **3.5 Uneconomic Transactions**

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As the Black Lime Project commenced in the year 2009 under the One Village One Crop Programme had failed the expenditure amounting to Rs.6,615,581 incurred for the purchase of machinery and kilns required for the purpose had become fruitless.

### **3.6 Human Resources Management**

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Even though the approved staff under the permanent basis and contract basis had been 76, the actual staff had been 34 and as such the vacancies represented 55 per cent of the approved staff.

### **3.7 Motor Vehicles Utilizations**

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Even though 03 motor vehicles costing Rs.1,191,190 had been taken off from running due to heavy repair costs necessary course of action had not been taken in that connection.

## **4. Systems and Controls**

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

- (a) Financial Control
- (b) Cadre Management
- (c) Project Management
- (d) Assets Control