

Sri Lanka National Freedom from Hunger Campaign Board - 2015

The audit of financial statements of the Sri Lanka National Freedom from Hunger Campaign Board for the year ended 31 December 2015, comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 14 of the Sri Lanka National Freedom from Hunger Campaign Board Act, No. 15 of 1973. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1.2 Management's Responsibility for Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810) and in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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 Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, 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 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) The cash flow statement had not been prepared by identifying the activities so as to reflect the cash inflow and cash outflow during the year.
- (b) Pensions gratuity relating to the year under review had been over provided by Rs.392,864.
- (c) Interim allowances and special allowances had been considered as earnings in the computation of contributions to the Employees' Provident Fund and the Employees' Trust Fund and as such, sums of Rs.514,373 and Rs.77,156 had been overpaid to those 02 Funds respectively in the year under review.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Even though the loan of Rs.2,875,000 obtained in 03 instances from the Farmers' Trust Fund from the year 2010 up to the year 2012 should be completely paid within the year under review, a sum of Rs.2,687,500 had to be paid even by the end of the year under review.
- (b) Action had not been taken even up to the end of the year under review to recover the trade debtors balances totalling Rs.883,015 outstanding from the years 2011 and 2012 and the balance of Rs.34,233 older than 05 years recoverable from the Line Ministry.
- (c) The Board had not taken action to settle a sum of Rs.3,300,000 shown in the accounts as an expenditure payable to the Paddy Marketing Board since the year 2011 and this balance had not been confirmed as well.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Board for the year ended 31 December 2015 had been a deficit of Rs.13,925,059 as against the surplus of

Rs.,1,921,514 for the preceding year thus indicating a deterioration of Rs.15,846,573 in the financial result for the year under review as compared with the preceding year. Even though the Treasury provisions had increased by Rs.13,203,909 in the year under review as compared with the preceding year, the decrease in operations by Rs.21,461,162 and the increase in employees' remuneration by Rs.13,848,268 had mainly attributed to the above deterioration of the financial result.

Even though a deficit existed in the financial result in the analysis of the financial results of the year under review and four preceding years, considering the employees emoluments and depreciation for non-current assets, the contribution of Rs.23,418,237 in the year 2011 had increased up to Rs.27,179,099 or 16 per cent in the year under review.

3.2 Legal Action Initiated Against the Board

The contract of erection of a fence in the year 2012 on a land without legal ownership to the Board had been awarded to an external party without the approval of the Board of Directors and deviating from the procurement procedure. Even though the erections had been completed, the money had not been paid to the contractor. As such, he had sent a Letter of Demand against the Board through a legal firm on 31 December 2013 to obtain compensation of Rs.3,209,728 and the relevant trial had not been completed even up to 30 May 2016.

4. Operating Review

4.1 Performance

(a) According to the Hunger Campaign Board Act, No. 15 of 1973, objectives of the Board are;

- (i) to obtain the aid of non-governmental agencies, both foreign and local, for social and economic development;
- (ii) to assist institutions and other bodies in carrying out development schemes;
- (iii) to aid, promote and co-ordinate specific projects directed towards agricultural and industrial development and to stimulate non-governmental agencies in the implementation of projects
- (iv) to collaborate with the International Freedom From Hunger Campaigns and other similar foreign institutions.

(b) The following matters were observed in the examination carried out in respect of the Action Plan and its progress prepared for the year under review by the Board for fulfilling the aforesaid objectives.

- (i) According to the Action Plan, the district and rural programmes on promotion of local natural foods for which provisions of Rs.10,270,000 had been made with a view to improving the consumption of local foods, had not been implemented in the year under review.

- (ii) According to the Action Plan, no function whatsoever had been fulfilled out of 06 functions which had been planned to be fulfilled in the year under review by spending a total sum of Rs.20,976,000 due to failure in obtaining provisions thereon.
- (iii) Even though an income of Rs.220 million had been planned to be obtained from 11 projects, the income earned from 11 projects as at 31 December of the year under review, had been only Rs.72 million.
- (iv) A sum of Rs.1.4 million had been spent for 02 projects which were not included in the Action Plan.

4.2 Losses and Damage

A loss of Rs.133,325 had been sustained by the Board due to the accident caused to the motor vehicle in the year under review belonging to the Mahaweli Authority which is being used by the Board.

4.3 Personnel Administration

The following observations are made.

- (a) The approved cadre and the actual cadre of the Board had been 28 and 74 respectively and as such, the excess cadre had been 46.
- (b) Three employees had been recruited on temporary, casual, substitute and contract basis without the approval of the Department of Management Services.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements should be presented to the Auditor General within 60 days of the closure of the accounting year in terms of paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements of the Board had been presented only on 07 April 2016, after a delay of 37 days.

5.2 Budgetary Control

Variances ranging from 30 per cent to 100 per cent were observed between the budgeted and actual income and expenditure in the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.3 Unresolved Audit Paragraphs

The following observations are made.

- (a) Action had not been taken even up to the end of the year under review for the recovery of loans amounting to Rs.80,610 granted to 19 farmers in the year 2003 for obtaining water supply machines for the farming lands and a sum of Rs.64,500 recoverable for Suwa Posha and Maw Posha packets obtained by the former vice Chairman in the year 2011.
- (b) The Committee on Public Enterprises held on 01 October 2012 had given a directive to present the Amended Act of the Board and that directive had not been implemented.
- (c) Even though the draft charge sheet and the preliminary investigation reports in respect of the cash theft amounting to Rs.77,352 occurred at Narahenpita trade stall in the year 2012 had been submitted on 05 May 2015, action had not been taken thereon even by 08 June 2016, the date of audit.

6. Systems and Controls

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

Areas of Systems and Control -----	Observations -----
(a) Financial Control	Material variances revealed between the budgeted expenditure and the actual expenditure and action not taken to settle the loans.
(b) Assets Control	Failure in transferring and documenting of motor vehicles properly.
(c) Personnel Administration	Non-obtaining approval for the excess staff and recruitment contrary to provisions of circulars.
(d) Project Management	Projects not implemented as planned and projects incurred losses.