

Sri Lanka National Freedom from Hunger Campaign Board - 2017

The audit of financial statements of Sri Lanka National Freedom from Hunger Campaign Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 the Financial Statements

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 controls 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 in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 -1810). 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 misstatements of the financial statements, whether due to fraud or error. In making those risks 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-section (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.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial statements

2.1 Qualified Opinion

In my opinion except for the effects of the matters described in paragraph 2.2 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 2017 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) Even though, a sum of Rs.11,773,265 had to be paid to a private entity as at 31 December 2017, for the import of 237,937 kg of maize in the year under review, it had been stated in the financial statements as Rs.11,163,064 and as such current assets and the surplus had been understated and overstated by Rs.610,201 respectively.
- (b) As the physical stock of packing material valued at Rs.192,404 as at 31 December 2017 had not been brought to accounts, the stock of packing materials and the surplus of the year under review had been understated by that amount.
- (c) An advance of Rs.4,821,030 paid for the purchase of rice milling and lifting machine at the end of the year under review had been brought to accounts as assets instead of being accounted as an advance and as such the cost of assets by that amount and the depreciation of Rs.2,642 thereon had been overstated.

2.2.2 Unexplained Differences

According to the ledger account, the closing stock of Soya beans as at 31 December 2017 had been Rs.9,442,810 whereas according to the verification report, the physical stock stood at Rs.10,130,705 and as such there was an unexplained difference of Rs.687,895.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to recover the debtor balances totalling Rs.691,211 brought forward since the years 2011 and 2012.

- (b) Even though, the loan of Rs.2,500,000 obtained from the Farmers Trust Fund in the years 2011 and 2012 should have been fully settled during the year 2013, action had not been taken to settle a further balance of Rs.2,101,315, including the interest of Rs.401,315, remained as at the end of the year under review.
- (c) Action had not been taken to settle the creditors balance of Rs.410,293 brought forward for more than 2 years.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

 The following Non-compliances with Laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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(a) Public Finance Circular No.03/2015 of 14 July 2015.	(i) Even though, the ad-hoc sub imprests should be settled immediately after the completion of the purpose for which it was given, sub-imprests totalling Rs.676,400 given on 46 instances during the year under review had been settled after delays ranging from 32 days to 210 days. Similarly, ad-hoc sub-imprests had been granted to officers who kept government money in hand continuously and settled after long delays and 117 instances were observed where sub-imprests were obtained before being settled the previous imprests obtained. (ii) Five officers had obtained sub-imprests totalling Rs.164,000 in 9 instances and settled them with delays ranging from 72 days to 168 days without being completed the relevant purpose by retaining in hand.
(b) Assets Management Circular No.02/2017 of Ministry of Finance and mass media dated 21 December 2017.	Motor vehicles used without having the registered ownership should be registered formally in the name of the Board with the concurrence of the entity, the registered ownership of which belonged to. Nevertheless, 3 motor vehicles belonged to the Ministry of Agriculture and 3 vehicles belonged to the Mahaweli Authority, Minor Crops Promotion Board and the Ministry of National Policies and Economic Affairs without being so registered in the name of the Board.

3. Financial Review

3.1 Financial Results

According to the Financial Statement presented, the financial result of the Board for the year under review had been a surplus of Rs.37,472,381 as against the deficit of Rs.2,343,342 for the preceding year, thus indicating an improvement of Rs.39,815,723 in the financial result of the year under review as compared with the preceding year. Decrease of expenditure on transport, communication, utility and other services by Rs.16,860,155 in the year under review and earning of income of Rs.35,087,146 from imported maize project had mainly attributed to this improvement of financial result.

In analysing the financial results of the year under review and the preceding 4 years, even though there was a deficit of Rs.5,077,456 in the year 2013, there was a surplus of Rs.1,921,514 in the year 2014. Similar deficits were reported again in the years 2015 and 2016 but a surplus of Rs.37,472,381 was earned again in the year under review, representing an increase of 1950 per cent. However, in re-adjusting employees remuneration and depreciation on non-current assets to the financial results, the contribution of the Board amounting to Rs.17,172,617 in the year 2013 had continuously improved up to Rs.79,677,384 by the end of the year under review.

3.2 Analytical Financial Review

As compared with the previous year, the current ratio had increased by one and the increase of payable deposits of Rs.82,175,150 had been the main reason therefor.

3.3 Legal Cases Initiated Against the Board

A contract had been awarded to put up a fence in the year 2012 in a land without the legal ownership which was not belonged to the Board without the approval of the Board of Directors and deviating from procurement procedure. An external party had filled a case against the Board, asking for a compensation of Rs.3,209,728, due to non-payment of dues.

4. Operating Review

4.1 Performance

4.1.1 Operations and Review

According to the Action Plan prepared by the Board for the year under review, implementation of 14 projects by spending a sum of Rs.3,713.24 million had been estimated and the following observations are made in that connection.

(a) Thanamalwila and Buttala Farms

Lands belonging to the Thanamalwila and Buttala farms 16 acres and 10 acres in extent respectively had not been utilized for plantation works effectively even by the end of the year under review.

(b) Fruit Consumption Promotion Project (BFN)

Even though, it was planned to manufacture 3,600 bottles of beverage during the year under review, by the project implemented with the object of supplying value added fruits, being shortages locally and to promote local fruit consumption, only 1420 bottles were produced.

(c) Mauposha Project and Traditional Rice Project

According to the Action Plan for the year under review, it was planned to produce 4000 packets of Mauposha and 48,000 packets of rice flour but only 1685 packets and 1316 packets respectively had been produced. It was not properly planned, having being identified the demand and the stock of raw materials purchased for the Mauposha Project valued at Rs.842,150 and the balance stock of packing materials valued at Rs.192,404 purchased for the rice project had remained in the stock as at 31 December of the year under review.

(d) Hela Bojun Hala

Even though the approval of the Board of Directors had been granted to open the Hela Bojun Hala on 17 November 2017 it had not been opened even by the end of the year under review.

(e) Small tanks development Project

Without getting the approval of the Board of Directors for the project report relevant to the renovation of tanks, being deepened in the Dry Zone Project it had been implemented. Even though, it was expected to develop 36 tanks during the year under review according to the action plan, only 27 tanks had been deepened.

(f) According to the Action Plan, a sum of Rs.72.10 million had been provided for the formalization of street food project with the objective of extending anti-poisonous foods island wide. Even though, it was planned to start 100 carts of street foods in the Anuradhapura District as the initial step, it had not been fulfilled during the year under review.

4.2 Operating Activities

The following observations are made.

- (a) A Healthy Food Market had been commenced in the year 2016 in order to marketing of Small Entrepreneurs' Products registered with the Board. Accordingly, an external party had been selected to market such products and entered into an agreement without following the Procurement Guidelines. In terms of Section V of the agreement, the maximum value of products to be issued for sale at a time was only Rs.500,000. Nevertheless, products valued at Rs.1,966,824 had been issued in excess of the above limit. Furthermore, cash in respect of sales should be remitted within 15 days in terms of Section VI of the agreement. However, despite sales cash was not received within that period the Board had issued him products continuously and as such a sum of Rs.590,919 was due as at the end of the year under review. Action had not been taken to recover surcharges in terms of Section VI of the agreement. In addition, due to return of food products valued at Rs.375,905 during the year under review the Board had sustained a loss for the same value.
- (b) The Healthy Food Cafeteria commenced in the year 2012 with the objective of creating consumption pattern of indigenous traditional foods had incurred a loss of Rs.406,765 in the year 2012 and the loss had increased to Rs.4,192,533 by the end of the year 2015. The loss then had gradually decreased and it had been Rs.894,109 in the year under review. Despite it was informed the Chairman by the Board of Directors that a targeted programme be prepared so as to decrease the loss since March 2017, the then Chairman and the Vice Chairman had taken action to close down the cafeteria.

4.3 Idle and Under-utilized Assets

Equipment valued at Rs.452,000 purchased in the year 2012 to operate a bakery at the Dehiwala Shop had remained idle in the stores without being used.

4.4 Personnel Administration

The following observations are made.

- (a) The approved cadre stood at 28. As 37 employees had been recruited in terms of Public Administration Circular No.25/2014 of 12 November 2014, the actual cadre had increased to 65 and action had not been taken to get them approved.
- (b) In terms of Paragraph 7 of the above circular, employees on temporary, casual, substitute and contract basis should be recruited only on the prior approval of the Department of Management Services. Contrary to that, 3 employees had been recruited on contract basis and a sum of Rs.798,566 had been paid as salaries and allowances in the year under review.

5. Sustainable Development

Reaching Sustainable Development Objectives

According to the United Nations year 2030 on Sustainable Development, every public entity should act in accordance with that “agenda”. The Board had made aware how it would perform its functions within the scope of the Board and had identified Sustainable Development Objectives and targets.

6. Accountability and Good Governance

6.1 Procurement and Contract Process

6.1.1 Procurements

The following observations are made.

- (a) Three motor cycles valued at Rs.802,500 and 2 Global Processing System Units valued at Rs.148,672 had been purchased which had neither been included in the Procurement Plan nor in the Capital expenditure estimates.
- (b) A feasibility study had been carried out by the Institute of Post Harvest Technology for the purchase of a rice milling machine and lifting equipment by spending a sum of Rs.4,821,030 and to purchase electrical fittings by spending a sum of Rs.50,000 to the Board. Accordingly, 8 suppliers had been proposed by that feasibility report but bids were called only from 3 suppliers and 5 outside suppliers. Furthermore, even though 7 days should be given for calling bids by the shopping method in terms of Procurement Guideline 6.2.2, only 5 days had been given by the Board. Entering into an agreement in terms of Section 8.9.1 and obtaining a Performance Bond in terms of Section 5.4.10 had not been done.
- (c) Action had been taken by the Board to import and distribute maize among the essentially required small and middle scale entrepreneurs who produce animal foods in order to control high prices in the market and meet the market shortages of maize. Accordingly, the Board had taken action to import 50,000 kg of maize for the year 2017. The following observations are made in that connection.
 - (i) A total cost estimate had not been prepared in terms of Guideline 4.3.1 (a) of the Government Procurement Guidelines.
 - (ii) Even though at least a minimum of 5 members should be appointed to the Technical Evaluation Committee in terms of Section 2.8.2 of the Procurement Manual of 2006, only 3 members had been appointed by the Chairman of the Procurement Committee.

- (iii) As the value of stock of maize for which bids were called for the import amounted to Rs.2,474 million, according to the price of the selected bidder, calling for bids for the selection of the supplier should have been published through the national competitive bidding, in terms of Section 2.14.1 of supplementary 28 of Government Procurement Guidelines. Contrary to that, bids were called for from the registered suppliers. In addition to that even though decisions should be taken by the Cabinet Appointed Procurement Committee for supplies over the value of Rs.200 million, the decisions on the above supply had been taken by the Departmental minor Procurement Committee in contrary.
- (iv) The Performance Bond to be produced in terms of Guideline 5.4.10 of the Government Procurement Guideline of 2006 and condition 10 included in the bidding documents issued to suppliers had not been produced and no evidence was made available to ensure whether financial viability of suppliers had been established.
- (v) Even though bids were opened by the opening Committee on 24 January 2017, prior to that date, the Chairmen of the Board had informed the supplier who had been awarded the contract by his letter dated 25 November 2016 to import 50,000 MT of maize at Rs.44 per kg. Furthermore, without adducing any reasons for price changes 25,000 MT at Rs.49.48 per kg had been ordered subsequently again on 09 January 2017 by the letter No.PD/16/M-Import dated 09 January 2017. Accordingly, it was observed in audit that this Procurement Process had been carried out without transparency, as orders had been placed before calling for prices.
- (vi) According to the undated agreement entered into with the supplier, the supplier had been informed that 25,000 Metric tons of the total stock should be imported by 31 March 2017 but only 2500 metric tons or 10 per cent had been imported even by 31 May 2017 and as such stock could not be issued to the entrepreneurs. Accordingly, the achievement of the objectives of the import of stock had been doubtful in audit.
- (vii) Even though, the quality of imported stock of maize was indicated in the bidding documents, the Board had not taken action to check the quality of stock after receipt of stock and issued to the entrepreneurs directly. Even though, the maximum content of “afalatoxin” available in the stock of the specification should be 20 PPB, according to the bid document, it was observed at audit test check that such content had been 58 PPB to 310 PPB in 4 instances.

6.2 Budgetary Control

As compared the budgeted income and expenditure with actuals of the year under review, variations ranging from 26 per cent to 489 per cent were observed and as such the Budget had not been made use of an effective instrument of management control.

6.3 Tabling the annual reports

Annual reports of the Board for the years 2015 and 2016 had not been tabled in parliament even by 10 April 2018 in terms of Section 6.5.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

6.4 Unresolved Audit Paragraphs

Even though, the following observations were made in the previous audit report, a sufficient attention had not been made to rectify them even up to the date of this report.

- (a) A directive had been given by the Committee on Public Enterprises met on 01 October 2012 to present amendments to be made to the existing Act of the Board, it had not been implemented up to now.
- (b) Preliminary investigations or the formal disciplinary inquiries in respect of cash misappropriation of Rs.77,352 and Rs.73,415 occurred at Narahenpita shop in the year 2012 and Healthy Food restaurant in the year 2016 respectively and Dehiwala shop had not been carried out even up to the date of this report.

7. Systems and Control

Weaknesses in systems and controls observed in audit were brought to 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
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(a) Financial Control	Income and expenditure not managed through control by the Budget.
(b) Assets control	Motor vehicles not formally vested.
(c) Personnel Administration	Recruitments made without being complied with circular provisions.
(d) Project Management	Non-implementation of projects as planned and projects not maintained efficiency and economically.
(e) Maintenance of Files	Procurement files not maintained in accordance with provisions in the Procurement Guidelines.