

Sri Lanka National Freedom from Hunger Campaign Board - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Freedom from Hunger Campaign Board for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and statement of financial performance, statement of changes in equity, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Centre had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation	Management Comment	Recommendation
(a) Although, Assets, Liabilities, Income and Expenditure shall not be deducted except as required or permitted by the Public Sector Accounting Standards of Sri Lanka in accordance with paragraph 48 of Sri Lanka Public Sector Accounting Standards No. 01, out of the depreciation expenditure of Rs. 6,305,429 of the year under review in the Financial Performance Statement, the net depreciation value had been shown as Rs.2,806,105 after deduct the Government Capital Grant amortization value Rs. 3,499,323.	The Board has been conducting amortization of fixed assets purchased under Treasury provisions from the year 2019 and I will take action to show the depreciation expense and amortization value of the year separately in the Statement of Financial Performance in the future, in accordance with paragraph 48 of Standard No. 01.	Action should be taken to show the depreciation cost and amortization value of the year separately in the Statement of Financial Performance.
(b) In accordance with paragraph 47 of Sri Lanka Public Sector Accounting Standards No. 03, although the financial statements issued after the detection of errors in the sufficient prior period, it is necessary to restore the comparatively comparable values and disclose the nature of the errors and how they were adjusted in the financial statements, errors of Rs.8,053,259 had been corrected and restored in the financial statements during the year under review but had not been disclosed in the financial statements.	Although corrections have been made, they will not be disclosed in the accounts, so I will disclose in the future.	The accounting policies followed should be disclosed in the financial statements.

- (c) According to paragraph 86 of Sri Lanka Public Sector Accounting Standards No. 07, the measurement basis used to determine the gross value of each property, plant and equipment in the financial statements should have been disclosed, but it was not done. I will take action to rectify this in the future as the measurement bases used for the property, plant and equipment have not been disclosed as per paragraph 86 of Standard 7. The measurement basis used for the property, plant and equipment should be disclosed.

1.5.2 Accounting Deficiencies

Audit Observation

In the Cash Flow Statement stated in the Financial Statements, the government receipts were overstated Rs.1,128,707 and the amount of Rs.467,066 disposed during the year under review and Rs. 312,000 remitted to the Treasury had not been properly adjusted in the cash flow statement.

Management Comment

I will focus on this in the preparation of accounts for the coming years and take action to rectify the deficiencies.

Recommendation

Deficiencies should be rectified in the preparation of accounts for the coming years.

1.6 Accounts Receivables and Payables

1.6.1 Cash Receivables

Audit Observation

According to the financial statements of the Board as at 31 December 2020, there were loan balances of Rs.691,210 due from government institutions, private institutions and individuals older than 08 years and It was further observed that some of the debtors mentioned in the debtor's document were fake.

Management Comment

A letter has been sent to the Ministry to conduct an inquiry in accordance with F.R.104 regarding these loan balances which are several years old.

Recommendation

An investigation should be carried out and appropriate action should be taken.

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

Reference to Non-compliance Laws, Rules Regulations etc.

Management Comment

Recommendation

- (a) Financial Regulations of the
No action had been taken to investigate and recover the damages from the
Investigations are being carried out in accordance with Regulation 104 regarding the
In accordance with Financial regulations, investigations should

Socialist Republic of Sri Lanka F.R.104	responsible parties relating loss of a mobile phone worth Rs.48,990 at the Narahenpita Head Office during the year under review, Fraud of Rs.77,362 at the Narahenpita Nursery in 2012 and Missing 37,223 kilograms of soybeans worth Rs. 4,094,596 in the Upuldeniya warehouse in Anuradhapura in 2018.	loss of a mobile phone worth Rs.48,990 at the Narahenpita Head Office. Preliminary investigation into the fraud of a nursery in Narahenpita has been completed and it has been referred to the Board of Directors and charge sheets have been sent to the relevant responsible officer. I will take further action in this regard. The Ministry of Agriculture has appointed a committee to look into the loss of soybean stocks at the Upuldeniya warehouse in Anuradhapura. Reminders have been sent for that. So far, no such reports have been received.	be carried out without delay and action should be taken to recover losses.
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| (b) FR 371 (2) Amended by Public Finance Circular No. 01/2020 dated 28 August 2020. | Although it must be settled immediately the ad-hoc sub imprests upon completion of the work, during the year under review, it had taken 42 to 102 days to settle four advances of Rs. 118,500 given to three officers for travel expenses, transport expenses and purchases. | 3 out of 4 advances were obtained for the work on the Buttala and Thanamalwila farms and some time has elapsed to complete the work. The rest of the advance was taken to buy the necessary sanitary ware due to the corona epidemic and due to the shortage of those items in the market at that time, the payment was delayed due to delays in purchases. | As soon as the work is done, the ad-hoc sub imprests must be settled. |
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2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 12,505,208 and the corresponding surplus in the preceding year amounted to Rs. 70,409,680. Therefore, a deterioration amounting to Rs. 57,904,472 of the financial result was observed. The reasons for the deterioration was mainly due to decrease in the provisions received from the Treasury and the Ministry of Agriculture during the year under review from Rs. 25,534,210 when comparing to the previous year, decrease in other operating income by Rs. 55,441,647, decrease in interest income by Rs. 2,030,776, decrease in other income by Rs. 1,049,828, increase in employee emoluments by Rs. 3,961,912.

2.2 Trend Analysis of major Income and Expenditure items

Compared to the previous year, Treasury / Ministry grants, other operating income, interest income and other income had decreased by 34, 86, 12 and 55 percent respectively during the year under review. Salaries also increased by 19 percent, while supply and demand expenditure and transportation, communications, utilities and other expenses decreased by 59 to 69 percent, respectively.

2.3 Ratio Analysis

The revenue surplus for the year under review declined by 27.79 per cent over the previous year, while the current assets and quick assets ratio declined by 0.73 per cent and 0.77 per cent, respectively.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

In 2017 and 2018, the soil in the tanks was removed and sold to the expressways, which was not the purpose stated in the Sri Lanka National Freedom from Hunger Campaign Board Act No. 15 of 1973. A sum of Rs. 3,370,595 had been spent for the removal of soil and revenue of Rs. 81,134,631 was earned from the sale of soil to the expressways. Although it was stated that the tanks should be developed to the proper standard under the engineering guidance of the Department of Agrarian Development after obtaining funds from the relevant farmers' organizations for the soil provided by the tank project and using that money along with the government allocations, instead of that Rs.77,764,036 was kept in a fixed deposit account.

Management Comment

Section (a) has been complied with in order to achieve the general objectives under the Section 3 II of the Sri Lanka National Freedom from Hunger Campaign Board Act and the objectives of the Board mentioned in item 4 of that Act. Work on the project came to a halt with the collapse of the state government's political policies. However, the money generated from the project is safe to use for future development.

Recommendation

The relevant amount should be utilized as per the Act of the Board.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although Rs. 2.8 million has been spent on the soybean food production project in the last 03 years, the Board has not introduced such products to the consumer in the year 2020.	In order to introduce the new product innovated under this project to the market under public-private partnership, the draft agreements are submitted to a Financial Adviser for a report on the advice of the Secretary of State. Upon receipt of the report, it is expected to introduce these innovative new products to the market in accordance with the agreements.	The board must present the final product to the customer.
(b) About 683.15 kg of WIP vitamins available for blending with rice at the Kalankuttiya factory in relation to the empowered rice project had expired and could not be used and as of 28 February 2021, no investigation had been conducted and no action had been taken.	I accept that some of the empowered rice from the World Food Program had become unusable and expired. The Disposal Committee is scheduled to meet in May 2021 for all disposal activities.	An investigation should be conducted and appropriate action should be taken.
(c) The Thanamalwila Agrarian Farm recorded a net loss from 2016 to 2020 and it was observed that more than 60 to 90 percent of the cost of overhead was borne for salaries and wages.	One employee has been assigned to all the security, daily management and development works of a 16 acres farm in Thanamalwila. Wages has been paid for those services obtained from him. It is true that neither we nor the agrarian community living in the area have been able to implement effective agricultural projects in the adverse weather conditions. Policy measures have been taken to launch an organic fertilizer production project for the year 2021 with the participation of the agricultural community in the area.	The farm should be managed in such a way that losses are minimized and profits are made.
(d) It was observed that although about 02 acres of the Buttala farm land consisting of about 10 acres was used for compost fertilizer production, the remaining area was	As per the instructions of the Secretary of State, Buttala Farm is working with the Department of Agriculture to develop it as a seed production farm.	Land area should be utilized effectively.

not utilized for effective cultivation.

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| (e) | There was no focus on formulating a formal program to sell traditional rice. | Not answered. | A formal arrangement should be made to sell traditional rice. |
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3.3 Idle or underutilized Property, Plant and Equipment

Following observations are made.

Audit Observation	Management Comment	Recommendation
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(a) 03 water pumps, a plastic water tank (2000 liters), 06 electric motors used for paddy mills, 02 mud wheels and 01 hook plow were not used in the factory.	Not answered.	It should be repaired and used or, if not, disposed of.
(b) 01 roller machine and 02 lift machine (shifter) used for rice flour production have not been used since 29 February 2016 and have been out of order for more than 03 years.	Not answered.	It should be repaired and used or, if not, disposed of.
(c) The research unit had 14,243 stickers used for nutrition and mother nutrition products, 26,087 inside covers and blank covers used for the nutrition bag and 14,062 packs of 200 grams packs of nutrition nut had not been using for more than five years.	Not answered.	Should avoid unnecessary purchases. Steps must be taken to utilize or dispose of this material.

4. Accountability and Good Governance

4.1 Tabling of Annual Report in Parliament

Audit Observation	Management Comment	Recommendation
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The annual reports for 2017, 2018 and 2019 had not been tabled in Parliament.	Action will be taken to send it to Parliament. The 2018 Annual Report has been sent for Tamil and English translations and action will be taken to print and send it as soon as received it. The 2019 Annual Report has been prepared and sent to the Ministry of Agriculture for review and action will be taken to print it as soon as received observations and send it to Parliament.	Annual reports should be tabled in Parliament immediately.

4.2 Annual Action Plan

Following observations are made.

Audit Observation	Management Comment	Recommendation
(a) According to the revised action plan for 2020, Rs. 172 million had been allocated for 15 projects, of which Rs.140 million had not been spent. Of the 08 projects included in the action plan, which had been allocated Rs. 42 million, no work had been done.	Due to the corona epidemic in the first quarter of 2020, some projects could not be implemented.	Tasks must be carried out in accordance with the action plan.
(b) Although Rs. 4.750 million had been allocated for the renovation of the warehouse of the traditional rice procurement project, the work had not been carried out.	Not answered.	Tasks must be carried out in accordance with the action plan.
(c) Although allocation of Rs.212,400 have been made to cultivate soya beans at the Thanamalwila farm for the Yala season and it is expected to harvest 2,240 kg of soya beans, a harvest of 562 kg of soybeans was obtained at a cost of Rs.440,000. It was 25 percent of the expected yield.	Not answered.	Tasks must be carried out in accordance with the action plan.
(d) Although Rs. 3.163 million has been allocated to process 2,000 metric tons of dry manure at the Thanamalwila farm, to repair the building that processes the organic fertilizer and to purchase the necessary machinery, out of this, only Rs.1.045 million was spent on repairing the building.	Not answered.	Tasks must be carried out in accordance with the action plan.
(e) According to the action plan of the Thanamalwila farm, 75 metric tons of dry dung was planned to be processed in 2019 and 20 metric tons of dry dung according to the action plan for the year 2020, but the production had not been carried out for 2 years.	Not answered.	Tasks must be carried out in accordance with the action plan.
(f) According to the 2020 Action Plan, it was planned to prepare 35,400 packets of traditional rice 1 kg each and it was observed that it was 56 percent less than the number of rice packets planned for 2019. It was also	Not answered.	Tasks must be carried out in accordance with the action plan.

observed that only 43 percent of the planned quantities of rice have been prepared for the year 2020.

4.3 **Budgetary Control**

Following observations are made.

Audit Observation	Management Comment	Recommendation
----- When examine the Budgeted revenue and actual revenue of the board of the year 2020, there was a variation from 02 percent to 100 percent and When examine the Budgeted Expenditure and actual Expenditure, there was a variation from 26 per cent to 93 per cent.	----- The Department of National Budget for the year 2020 provided less allocations. Accordingly, variations have occurred . The office was also forced to close in 2020 due to the corona epidemic. As a result, some tasks could not be performed. Therefore, there is a decrease in revenue and expenditure. Accordingly, there have been variations in actual revenue and expenditure rather than budgeted revenue and expenditure.	----- The budget should be used as administrative matters.