

Sri Lanka National Freedom from Hunger Campaign Board -2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka National Freedom from Hunger Campaign Board for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in equity 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, the Sri Lanka National Freedom from Hunger Campaign Act No.15 of 1973 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 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 2023, 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 Institute 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 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 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 Institute'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 Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit observations related to the preparation of financial statements

1.5.1 No compliance with Sri Lanka Public Sector Accounting Standard

Audit Observation	Comments of the Management	Recommendation
(a) According to Sri Lanka Public Sector Accounts Standard No.11, although government grants should be taken to income, the government grants received in previous years amounting Rs.40,215,607 as at 31 December 2023 have not been adjusted to the accumulated fund.	Action will be taken to account according to the standard in the year 2024.	Government grants should be taken into revenue as per standard.
(b) Since the gratuity provision of Rs.12,859,335 was stated in the financial statements without following the actuarial method contrary to Sri Lanka Public Sector Accounting Standard No. 19 the value may be over/under calculated.	Action will be taken to calculate the gratuity according to the actuarial method and take it in to the financial statements.	Actuarial valuation should be calculated according to the standard.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the goods worth Rs.328,647 out of the goods worth Rs.2,777,727 and taken from the Spices Marketing Board on credit basis without entering into an agreement were expired, the inventory loss had not been adjusted to the financial statements.	As this stock worth Rs.328,647 was destroyed by Dehiwala outlet on 25.12.2023, the value of this stock was not included in the final stock in counting the physical stock on 31 December 2023 and therefore the profit has also been shown correctly. However, It is accepted that the stock has not been deducted from the stock in the preparation of the accounts. Action will be taken not to do that in the future.	Inventory losses should be adjusted to the financial statements.

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| (b) | The project operating income of the Board had been understated by Rs.196,445 in the year under review. | Accept.
The correction will be made in 2024. | The income of the year should be properly accounted. |
| (c) | Rs.1,805,492 of amortization value in the year under review was not shown as a separate item in the statement of financial performance and was deducted from translation, communication, utilities and other service expenses and therefore that expense had been understated in the statement of financial performance from same amount. | Although the amortization value of the year under review has been deducted under expenses and the expense has been shown separately under accounting notes 21, Action will be taken to show it under income without deducting it from expenses in the financial performance statement in the future. | Amortization value should not be deducted from expenses in the statement of financial performance. |

1.6 Payable Amounts

Audit Observation

Although Rs.21,635,000 deposits had been received from the external parties for a project to import and distribute green beans and black grams which was not included in the action plan, the relevant project had not been implemented and the unsettled amount of Rs.9,515,000 was kept in a deposit account.

Comments of the Management

A extra ordinary gazette was issued by the Honorable President on 08/17/2023 to remove the ban on importing 2,250 metric tons of green beans and 1,350 metric tons of black grams to the National Food Promotion Board and import green beans and black grams under a tax of Rs.300 per kilogram. Accordingly, as the board will receive 03 percent administrative fee from the import cost decided by the price committee of the board, further activities were planned. Nevertheless, due to the fact that the import and export controller did not remove the related ban, it was not possible to carry out the import activities. Some companies have claimed and got their money back while other companies are still holding the money with us.

Recommendation

Unsettled deposits should be paid to the relevant party.

1.7 Non-compliance with Laws, Rules, Regulations and Management decisions etc.

Reference to Laws, Rules and Regulations	Non-compliance	Comment of the Management	Recommendation
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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| (a) F.R. 104(4) | Although the investigation report stated that the former chairman, director, assistant director, (currently the deputy director) are collectively responsible for the misplacement of soybeans worth Rs.4,094,596 in the Anuradhapura Upuldeniya warehouse in the year 2018, the Deputy Director was allowed to go abroad without salary. | The Criminal Investigation Department conducted a preliminary investigation into the misplacement of 37,223 kg of soybeans in the Anuradhapura Upuldeniya warehouse in the year 2018 and filed a case under number 91706/03/23 in the Colombo Magistrate's Court on 12.05.2023 and the investigations are still ongoing. | Losses should be charged from the responsible parties. |
| (b) F.R. 571 (2) | Action had not been taken to bring Rs.76,220,010 of refundable deposits more than 02 years into revenue or settled it. | The amount of Rs.40,214 in the name of Nelna Farm Private Company has been settled by now in the year 2024. The deposit of Rs.10,000 kept in the name of W.T.R.Chandana Lal Gunawardena cannot be released because the Buttala Compost Project is already in operation. An amount of Rs.76,085,636 related to the tank project has been invested in fixed deposits. Action will be taken to release other deposits in the future. | The respective tank should be renovated from the deposits related to the tank project. |

2. Financial Review

2.1 Financial Results

The financial result of the Board for the year under review was a surplus of Rs.59,970,688 and due to correspondingly last year surplus was Rs.16,020,225, there was a growth of Rs.43,950,463 in the financial result of the year under review compared to the previous year. Increase of Rs.31,041,573 in interest income and Rs.33,917,153 in other operating income had mainly affected the progress of the above financial result.

2.2 Trend Analysis of major Revenue and Expenditure Subjects

In comparison to the previous year, the Treasury/Ministerial grants decreased by 38 percent, other operating income and interest income increased by 314 percent and 119 percent respectively, while other income decreased by 88.9 percent, employee remuneration expense, supply and requirement expenses had decreased by 4.1 percent and 5.1 percent respectively. Transport, communication, utilities and other expenses and fixed asset repair and maintenance expenses had also increased by 40.3 and 82.8 percent respectively.

3. Operating Review

3.1 Management Inefficiency

	Audit Observation	Comments of the Management	Recommendation
(a)	An income of Rs.81,134,631 was obtained by removing the soil from the tanks and selling the soil to the highways which was not the purpose specified in the Act and according to the tank project report, although the board should receive money from the relevant farmers' organizations for the soil provided and, used that money along with the government's provision to develop the minor tanks in standard manner under the engineering consultancy of the Agrarian Development Department, Rs.76,085,636 out of the received money had been invested in a fixed deposit without act accordingly.	Accept.	Minor tanks should be developed under the engineering consultancy of the Agrarian Development Department as per proper standards.
(b)	In the year 2022, although an advance of Rs.500,000 has been given to the Department of Agrarian Development for the reconstruction of a part of the Sagini Lake in Tanamalvila Farm, the work has not been completed.	The Department of Agrarian Development was also informed to provide a solution in this regard and it was said that a work program would be prepared in the future on how to reform the system.	The lake should be restored and arrangements should be made to get water for the cultivation of the farm.

- (c) Although more than a year had passed from the Assistant Director (Admin) was placed on compulsory leave from 15 February 2023 regarding the incident that even though the salary vouchers of December 2022 should have been recommended this officer was not giving such a recommendation without informing any reason, the preliminary investigations had not been completed. She has sent two letters in reply to the letter seeking excuse as per the preliminary inquiry report regarding the Assistant Director (Admin) and from which she has requested a copy of the inquiry report and information related to the inquiry. The preliminary investigation should be completed immediately and the issue should be resolved.
- (d) The Shrama Shakti Farmers' Organization had paid a deposit of Rs.1,693,200 on 25 September 2017 to the board for the reconstruction of Aluth Karamatiya Lake in Hambantota District and due to the failure to remove the entire amount of soil cubes, an amount of Rs.1,594,480 was not paid to the relevant farmers' organization without any sufficient proof and was paid to a person named A. R. C. Pradeep on 13 March 2023. the Chairman, Secretary and Treasurer of the farmer's organization put the seal in writing and confirmed with the copies of the ID cards and informed the board that to paid the money related to the 3000 cubic meters of soil removed according to the confirmation of the Agrarian Development Commissioner excluding the amount of soil removed related to the lake from the money deposited by the Karamatiya Lake Farmers' Organization for A. R. C. Pradeep who deposited the money for that purpose by the Shrama Shakti Farmers' Organization accordingly the payment of Rs.1594,480 has been paid. And the Agriculture Research Officer had also confirmed related to that. It is also known to the officers of the project department of the board that since the farmer organizations do not have the money to carry out these works, the resource person found in that area deposited the money for the purpose of digging the tanks and did the work. Deposits should be paid to the respective parties only.

3.2 Operational Inefficiency

Audit Observation	Comments of the Management	Recommendation
(a) Due to the non-renovation of the tank located on the 16-acre of Thanamalwila government-licensed land, it was not possible to carry out the proposed cultivation projects and use the farm effectively. The organic fertilizer processing building built at the cost of Rs.600,000 in the year 2020 remained idle without any use.	Accept. In this building of Thanamalwila Farm, cow dung fertilizer is currently produced and sold to Dehiwala and Narahenpita plant nurseries in 2 liters and 5 liters of this cow dung product. There is high customer demand for those products.	Buildings should be used effectively.
(b) The 10-acre government-licensed Buttala land remained idle without doing any work, and a private party has been running a business of producing and distributing pot mixes without a contract using the name of the board since 05 April 2021.	Accept. Although a higher percentage of the overhead cost is spent on the wages and salaries of that employee, under the supervision and safety of the organic fertilizer production project, the mixture is made and distributed to plant stores in Narahenpita and Dehiwala for sale.	Farm should be used effectively.
(c) Although the machine capacity of the Kalankuttiya Rice Processing Center is turn about 1,000-1,200 kg of paddy into rice per hour, only 28,580 kg of paddy was turned into rice in the year under review. The 06 machines in working condition in this unit and 05 machines in working condition in the rice flour production unit have been idle since 2022 and modernization of machines has not been done until now.	Due to the fact that the sale of the products of the Kalankuttiya Rice Processing Center was done only through the Dehiwala outlet and the orders received by the external agencies or the registered agencies of the Board were limited, the purchase of paddy was not made in large quantities. Furthermore, the processing center is mainly used to convert traditional paddy into rice and the lack of traditional paddy stocks to buy to meet the demand also led to the decrease in production.	Resources should be planned in such a way as to maximize benefits.
(d) The Board had imported maize for animal feed products through a private importer without the approval of the Cabinet and the Food Policy Committee and for those imports, a procurement notice had not been published at least in a national newspaper, on the website of a National Procurement Directorate or	The Ministry of Finance had obtained Cabinet approval for the import of maize required for the year 2023 on the recommendation of the Food Policy Committee. Accordingly, 200,000 MT of maize was allowed to be imported. The President's Secretariat had	The import should be formally monitored under the import permit obtained by the Board.

on the other relevant website as per 3.2.2 (a) of the Procurement Guidelines. The 8,484,036 kg of maize imported by two private companies under the import permit received by the board in the year 2023 had been sold without the intervention of the board.

requested the Secretary of Agriculture to grant permission for the importation of maize, and the Tulip Institute carried out the relevant import activities, and for that, permission was obtained for the importation under 03 institutions through the Cabinet Note 24/0449/612/012-1. The import period of 2023 has been extended from time to time until 2024-03-20 and the relevant money has been received so far.

- (e) Out of 13 projects carried out in the year under review, 08 projects made Rs.9,095,302 of net loss.

The management did not pay attention to minimize the loss of those that had continued losses. Dehiwala Stores, Traditional Rice Project, Buttala Farm, Thanamalvila Farm, Steam Hopper Flour Project, Agrofresh Wattala, RTS Beverage Project and Dose Flour Project have suffered losses.

Actions should be taken to minimize the loss.