

Sri Lanka National Freedom from Hunger Campaign Board - 2019

1.1 Qualified Opinion

The audit of the financial statements of the National Freedom from Hunger Campaign Board for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 and the Financial 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 2019, 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 based 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 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.

1.4 Auditor's Responsibility in Auditing 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Concluded on the appropriateness of the Management's use of the going concern of the Board 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 to cease to continue as a going concern.
- Evaluated the 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 governing parties were made aware on important audit findings identified during my audit, major internal control weaknesses and other issues.

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 Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Board ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Accounting Deficiencies

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|--|---|--|
| <p>(a) Material prior period errors should be adjusted retrospectively and restate the comparative amounts in the financial statements issued after their discovery and it should disclose about the nature of those errors and how they were adjusted in the financial statements in accordance with Sri Lanka Public Sector Accounting Standards No. 03, the corrections of errors amounted to Rs. 8,012,320 in relation with the preceding year in the financial statements during the year under review had not been revealed. Similarly, even though the financial statements of the preceding year were corrected and restored, it had not been disclosed in the financial statements.</p> | <p>Comments have not been given.</p> | <p>Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards</p> |
| <p>(b) The Board had made amortization adjustments to the assets purchased through Treasury Grants from 31 December of the year under</p> | <p>Amortization adjustments had been made from the year 2015 to 2018. However, it is accepted that the amortization for the</p> | <p>Amortization adjustment should be made properly.</p> |

review including the period from 2015 to 2018. However, understating of the amortization adjustments made for the period from 2015 to 2018 amounting to Rs. 5,043,761 and understating of the amortization for the year 2019 amounting to Rs. 798,157 had been shown in the financial statements.

years 2015 and 2018 amounting to Rs. 5,043,761 and the amortization in relation with the year 2019 amounting to Rs. 798,157 were understated in the accounts and actions will be taken to rectify this in the preparation of accounts for the year 2020.

- (c) The liability of rates payable to the Colombo Municipal Council for the Head Office building in Narahenpita from 2004 to 2019 amounted to Rs. 2,384,989 had not been adjusted in the accounts and stated in the financial statements.

We were informed for the first time to pay these rates in the year 2019 and it is informed that we were not aware of the arrears before that. It was made aware of that, the Urban Development Authority had acquired this land by the year 2019. As there were other institutions active in this Institute at this time, it was informed to take actions to distribute the rates to each institution. Rates for the year 2020 have already been paid. Actions will be taken to pay the arrears rates for the year 2019 after receiving this year's provision.

Rates should be properly taken into accounts.

- (d) The interest income received for a fixed deposit in respect of the year 2018 was Rs. 331,907 and it had been shown as an investment income of the year under review and the investment income receivable amounted to Rs.774,855 relating to the year under review had been understated in the financial statements.

The profit of the year 2019 was Rs.70.4 million. Accordingly, since the amount of Rs.331,907 was not adequate as per the profit, actions were taken to adjust to the profit of the year 2019. If the matured fixed deposit is withdrawn, the bank would pay the average savings interest rate for the aforesaid period. Accordingly, it has been taken into accounts as 4 per

The actual income should be taken into accounts.

cent savings interest. Fixed deposit interests rate itself have been calculated for matured deposits.

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

The following observations are made.

| | Reference to Laws, Rules, Regulations etc. | Non-compliance | Comments of the Management | Recommendation |
|-----|---|---|--|---|
| (a) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R 104 | Investigations had not been carried out in respect of missing mobile phone valued at Rs.48,990 occurred at the Narahenpita Head Office in the year under review, the cash fraud that had taken place in the year 2012 at the Narahenpita nursery amounting to Rs. 77,362 and the missing 37,223 kilograms of soybeans worth of Rs. 4,094,596 taken place at the Upuldeniya Warehouse, Anuradhapura in the year 2018 . | A Committee has been appointed to conduct a F.R 104 inquiry for the damage caused due to the missing of the mobile phone. The investigation report regarding the cash fraud occurred at Narahenpita Nursery in the year 2012 amounted to Rs.77,364 has been submitted to the Board of Directors and instructions have been given to implement its recommendations. Accordingly, further actions are already being carried out. The investigation as per F.R 104 in connection with the shortage of soybean stocks in the year 2018 is further being carried out by the Ministry of Agriculture. The preliminary investigations carried out in respect of the missing of the soybeans was stopped | Investigations should be carried out without delay in accordance with Financial Regulation. |

by the Board of Directors and informed to be handed over it to another investigating officer. Accordingly, an another Preliminary Investigation Officer has been appointed through the Ministry of Agriculture again and further activities are being carried out accordingly.

- (b) Section 13.1.2 of Chapter II of the Establishments Code
- Although a qualified officer in every way has to be appointed to the relevant post as per the Scheme of Recruitment for an acting appointment, an unqualified Project Assistant Grade III was appointed as an Acting Assistant Director on 02 May 2011 and an acting allowance of Rs. 96,150 had been paid.
- Agreed. The reason for the appointment of him to the acting post like this was the vacancy occurred because of the Mr. Ajith Randunu, who had served as the Assistant Director (Development) in 2011 and left the service. It is accepted that, an acting allowance for that had been paid according to the duties of the development division of the Institute on a judgment given by the Appointing Officer of the Institute .
- The Board shall comply with the provisions of the Scheme of Recruitment.
- (c) Section 5.4.10 (c) of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka
- Although a Performance Security not less than 10 per cent of the agreed supply value should be obtained from a supplier of goods, instead of Security
- Since it has been mentioned that irregularities have taken place in the importation of maize as stated in the observations of the audit inquiry submitted by the
- Appropriate actions should be taken without delay in case of violation of the provisions of the Procurement Guidelines.

to be obtained not less than Rs.150.6 million from a private company which had imported maize valued at Rs.1506 million, only Rs. 5 million Security had been obtained. The contracts had been awarded to another two private companies that had signed contracts valued at Rs. 618.7 million and Rs. 500.6 million without obtaining any Security for the same purpose

Even so, a sum of Rs.5 million performance securities had been reduced in contrary to the provisions of the Procurement Guidelines when making payments to those suppliers.

internal auditor of the Ministry of Agriculture and as pointed out by the Government Audit Division under obtaining a comprehensive investigation into the maize import process and the resulting corruption process a request has been made to the National Procurement Commission to conduct an inquiry into that. Further actions will be taken as per the report received from it.

Section 2.14.1 (Revised) of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka

Although the approval of the Cabinet Appointed Procurement Committee should be obtained for the procurement of maize valued at Rs. 2,690 million, it had been approved by the Procurement Committee appointed by the Board. One of the

Since it has been mentioned that irregularities have taken place in the importation of maize as stated in the observations of the audit inquiry submitted by the internal auditor of the Ministry of Agriculture and as pointed out by the Government Audit Division under

Appropriate actions should be taken without delay in case of violation of the provisions of the Procurement Guidelines.

three committee obtaining a members therein comprehensive had not even investigation into the signed the maize import process procurement and the resulting decision. corruption process a request has been made to the National Procurement Commission to conduct an inquiry into that. Further actions will be taken as per the report received from it.

2. Financial Review

2.1 Financial Result

As the financial result of the year under review amounted to a surplus of Rs. 70,409,680 and the corresponding surplus in the preceding year was Rs. 41,940,044 thus indicating a growth of Rs. 28,469,636 in the financial result. The increase in the provision received from the General Treasury and the Ministry of Agriculture by Rs. 20,952,420 , increase in other project income by Rs.10,625,568, increase in interest income by Rs.8,057,890 and although maintenance and repair expenditure on fixed assets had decrease by Rs. 524,412, the increase in expenses for transport, communications, utilities and other services by Rs. 11,703,247 had mainly attributed to the above financial result.

2. Operating Review

2.1 Management Inefficiencies

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|---|-----------------------------------|--|
| ----- | ----- | ----- |
| (a) The removal of soil in the tanks and selling them to the expressways which was not intended as specified in the Sri Lanka National Hunger Eradication Chamber Act No. 15 of 1973 had been carried out in the years 2017 and 2018. A sum of Rs. 3,370,595 had been spent on soil removal and a sum of Rs. 81,134,631 had been earned from the sale of soil to the expressways. | Comments have not been given. | Actions should be taken in accordance with the Act of the Board and the money collected should be used for the relevant purpose. |

Although it had been stated that small tanks should be developed to the proper standard under the engineering guidance of the Department of Agrarian Development obtaining funds to the Board from the relevant farmers' organizations for the soil provided according to the tank project report and using that money along with government funds, without doing so, a sum of Rs. 77,764,036 had been retained in a fixed deposit account.

3.2 Procurement Management

 The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|--|--|---|
| ----- | ----- | ----- |
| <p>(a) Due to the Board had failed to check and approve the quality of maize, a quantity of 13,000 metric tons which was not in line with the specification of maize had been imported and distributed to animal feed manufacturers. Likewise, evaluation also had not been carried out regarding the impact on animal feed by this.</p> | <p>Since it has been mentioned that irregularities have taken place in the importation of maize as stated in the observations of the audit inquiry submitted by the internal auditor of the Ministry of Agriculture and as pointed out by the Government Audit Division under obtaining a comprehensive investigation into the maize import process and the resulting corruption process a request has been made to the National Procurement Commission to conduct an inquiry into that. Further actions will be taken as per the report received from it.</p> | <p>Appropriate actions should be taken completing investigations expeditiously.</p> |
| <p>(b) Although the amount of maize imported during the year under review had been stated as 49,554 MT due to insufficient domestic production according to the information provided by the Board, the actual quantity of</p> | <p>Since it has been mentioned that irregularities have taken place in the importation of maize as stated in the observations of the audit inquiry submitted by the internal auditor of the Ministry of Agriculture and as pointed out by</p> | <p>Appropriate actions should be taken completing investigations expeditiously.</p> |

maize imported were 37,186 metric tons as per the information obtained from the Customs regarding these imports. Accordingly, it was observed that the amount of 12,368 metric tons had been replenished from the stored maize stock obtaining from the local farmers at reduced prices and it could not be ruled out at the audit the suspicion on making an unjust profit around Rs. 55 million even at the lowest prices by hiding the imported maize stocks of the institutions. However, although the Cabinet had empowered to intervene in these matters, the Board had not taken any action in this regard.

the Government Audit Division under obtaining a comprehensive investigation into the maize import process and the resulting corruption process a request has been made to the National Procurement Commission to conduct an inquiry into that. Further actions will be taken as per the report received from it.

4. Accountability and Good Governance

4.1 Annual Action Plan

The following observations are made.

| | Audit Observation | Comments of the Management | Recommendation |
|------------|--|---|--|
| (a) | A sum of Rs. 145 million had been allocated through the Revised Action Plan for 11 projects in the year 2019 and out of that, 45 per cent had been utilized. Out of these 11 projects, 03 projects have been implemented by the Board so far, that is, the soya-based product project that has been researched and identified as an innovation, underutilized Fruit Drink Production Project and Suwaposha and Mawposha product, Dosai flour production which were the special products of the Board and the Board had decided to manufacture, distribute and promote in agreement with private business companies without taking actions to | Failure to achieve goals in the Action Plan. It had been planned to accomplish 11 projects as per the Revised Budget Estimate of the year 2019. However, due to the inability to carry out certain projects as planned, the targets could not be reached. Nevertheless, because it was unable to carry out some of the planned projects, the targets could not be reached. Similarly, this is also due to the inability to reach the expected revenue from some of the projects that have been implemented. Mawposha and Suwaposha projects could not be carried out due to broken machinery. Also, the | Tasks should be performed properly in accordance with the Action Plan. |

make profits by using resources and production capacity absorbing market opportunities to produce. Although Rs. 3.95 million had been allocated by the Action Plan for processing of 75 metric tons of dry dung and coir dust at the Thanamalwila Farm, those productions had not been carried out.

decrease in the income received from the local rice project and the local beverage project (BFN), receiving of less provision in the rice Empowerment Project and the less income in the Dehiwala sales outlet had also affected. Likewise, because of the widening of the front lane of the Narahenpita plant outlet and the outlet had to be relocated at the rear the revenue has reduced due to the decrease in customer attraction. As a result of such reasons, the targeted income for the year 2019 had decreased.

(b) Although it had been planned to process 300,000 kg of compost fertilizer and potting mix in Buttala Farm as per the Action Plan, only 129,115 kg (43 per cent) of compost and 119,000 kg (40 per cent) of potting mix were produced. Net profit of the Fertilizer Project had declined by 48 per cent as compared to the previous year.

Agreed.
The compost and potting mix produce in Buttala are sold through the Narahenpita and Dehiwala plant outlets of the Board . Nevertheless, with the commencement of the Kirimandala Mawatha Widening Project after May 2019, sales at the Narahenpita plant outlet were disrupted and revenue declined. Most of the products of the Buttala farm is sold at the Narahenpita Nursery. Buttala production had to be curtailed due to this situation which arose in the Nursery.
However, there is a high demand for organic fertilizers due to the corona epidemic and about 40 per cent of the production has already been completed as planned by the 2020 Action Plan.

Tasks should be performed properly in accordance with the Action Plan..

(c) Although it had been planned to produce 25,000 bottles of fruit drinks in the underutilized fruit drink project for the year 2019, only 12 per cent out of that was produced and although 2.8 million has been spent in the nearest last 03

Agreed.
Although it had been planned to produce 25,000 drink bottles using of underutilized fruits for the year 2019, since these underutilized fruit harvest receives seasonally and the

Tasks should be performed properly in accordance with the Action Plan.

years for Soy Related Food Products Project, the final product had not been presented to the customer by the Board.

difficult to find fruits it could not be produced fruit drink as expected in the Action Plan. It is planned to implement this project in future under public-private partnership.