

Sri Lanka National Freedom from Hunger Campaign Board - 2014

The audit of financial statements of the Sri Lanka National Freedom from Hunger Campaign Board for the year ended 31 December 2014, comprising the statement of financial position as at 31 December 2014 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 in consistent with International Auditing Standards of supreme Audit Instituting (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 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-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 qualified 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 2014 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 Policies

According to the information made available, Government Capital Grants amounting to Rs.41,330,074 had been received by the Board and it had not been disclosed by a separate account. The records on the assets acquired by utilizing these grants had not been maintained. Although those assets had been depreciated, an accounting policy on the amortization had not been introduced.

2.2.2 Accounting Standards

According to the Sri Lanka Public Sector Accounting Standard 03, instead of taking action to make the corrections of prior period errors and of retrospective adjustments made to apply changes in the financial position of the preceding year, debit and credit entries amounting to Rs.9,520,133 and Rs.3,938,310 had been adjusted to the Government grants and accumulated Fund respectively.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Action had not been taken to value and bring into account the value of the land 0.2022 hectares in extent situated at Narahaenpita which the ownership had been vested to the Board in the year 1999.
- (b) Even though the revaluation surplus amounting to Rs.328,671,316 arisen due to the revaluation of assets in the year under review should be shown separately in the statement of changes in equity, it had been added to the balance of the Fund and shown.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The Board had failed even as at the end of the year under review to recover the trade debtors balance amounting to Rs.691,212 which had been remained since the year 2011 as implementation of various Projects by the Board.

- (b) Action had not been taken to recover a balance of Rs.34,233 older than 05 years recoverable from the Line Ministry.
- (c) Action had not been taken to recover the sum of Rs.80,328 even as at 20 August 2015 recoverable for the stock of rice flour which had been supplied to an outside person on credit basis in the year 2013 under the Rice Project.

2.4 Non – Compliance with the Laws, Rules, Regulations and Management Decisions

The following non-compliances with laws, Rules, Regulations were observed during the course of audit.

Reference to Laws, Rules, Regulations etc.	Non – compliance
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(a) Financial Regulations of Democratic Socialist Republic of Sri Lanka.	
Financial Regulations 110	A Register of Losses and Damage had not been maintained and updated.
Financial Regulations 756	Even though there were 15 vehicles belonging to the Board as at 31 December 2014, a survey on vehicles had not been carried out in terms of Financial Regulations.
Financial Regulations 772	Action in terms of the Financial Regulations had not been taken in respect of the stock damages amounting to Rs.59,612 occurred in the year under review.
(b) Paragraph (d) and (g) of Chapter 02 of Treasury Circular No.842 of 19 December 1978	Reconciliation of the Ledger Accounts with the Control Account had not been carried out by maintaining a Control Account in the Main ledger for the fixed assets.
(c) Treasury Circular No.IAI/2002/02 of 28 November 2002.	A Register of Fixed Assets had not been maintained in respect of the computers and software.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Board for the year ended 31 December 2014 had been a surplus of Rs.1,921,514 as against the deficit of Rs.5,077,456 for the preceding year. As compared with the preceding year, the financial results for the year under review indicated an improvement of Rs.6,998,970 . Even though personal emoluments and other expenditure had increased by Rs.10,152,795 ,increase of Government Grants and other income by Rs.17,108,316 had mainly attributed to the improvement.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Six projects implemented from the self-fund of the Board had earned a net profit of Rs.14,553,313 while one projects had been incurred a net loss of Rs.1,503,014.
- (b) A net loss of Rs.1,503,014 had been incurred during the period up to December 2014 from the Healthy Food Restaurant opened in April in the year under review and the reason for this net loss had been 73 per cent out of the total expenditure was incurred as salaries and wages .

4.2 Management Inefficiencies

The following observations are made.

- (a) Even though the loan of Rs. 3,500,000 obtained from the Farmer's Trust Fund in 03 instances from the year 2010 to 2012 should have been settled in full during the year 2013, only a sum of Rs. 625,000 of the loan had been repaid by the end of the year under review.
- (b) Audit fees amounting to Rs.751,514 in relation to the period from 2000 to 2013 had not been settled even as at 15 August 2015.
- (c) The Board had failed to obtain aid from the foreign and local agencies for the social and economic development in accordance with the development programme of the Government according to the Sri Lanka Hunger Campaign Board Act and for liaison with the International Freedom from Hunger Campaigns and other similar foreign institutions and associations, or societies

4.3 Personnel Management

The following observations are made.

- (a) Even though authority had been given to the Chair Person for the recruitment of suitable employees who fulfilled the qualifications in the recruitment scheme, at the

meeting held on 27 November 2014, contrary to the recruitment scheme, 2 Management Assistants had been recruited by the former Chair person .

- (b) Even though , permanent appointments should be granted only for the employees who had completed a satisfactory service period of 180 days continuously in their positions who had been recruited on temporary ,casual(Daily payment),substitute, contract or relief basis in terms of Public Administration Circular No.25/2014 dated 12 November 2014 ,permanent appointments had been granted for 07 contract employees on 18 November 2014 who had not completed 180 days continuously.
- (c) Even though the approved cadre of the Board was 28 ,the actual cadre of the Board had exceeded by 50 employees due to the confirmation of 50 employees in terms of the above Circular.

5. Accountability and Good Governance

5.1 Action Plan

The following observations are made.

- (a) Even though a provision of Rs.2.46 million had been made in the year under review for the renovation of the building at Ambalanthota farm, construction of a cultivation well and the cultivation of green grams in 08 acres according to the Action Plan in the year under review, those activities had not been carried out .
- (b) Even though it had been planned in the year under review to carry out irrigation activities by spending Rs.600,000 at the Tanamalwila farm and construction of an electric fence for elephants by spending Rs.1,454,000 ,those activities had not been carried out.

5.2 Budgetary Control

The following observations are made.

- (a) As significant variances ranging from 2.3per cent to 232 per cent were observed as compared the budgeted expenditure with actual expenditure, the budget had not been made use of as an effective instrument of management control.
- (b) Action had not been taken to review the Budget with the Action Plan and the actual performance on a timely basis and for taking action on variances.

5.3 Unsettled Audit Paragraphs

The following observations are made.

- (a) Action had not been taken even during the year under review for the recovery of the loans amounting to Rs. 80,610 granted to 19 farmers in the year 2003 for obtaining water supply machines for the farming lands.
- (b) A contract valued at Rs. 2,548,050 had been awarded illegally to an external party in 2012 without the approval of the Board of Directors for the construction of a fence

and a gate on a land with no legal ownership to the Board. As the payment had not been made to the contractor though the work had been completed, the contractor had sent a letter of demand claiming a compensation of Rs. 3,209,728 through a firm of Legal Consultants against the Board on 31 December 2013. This case had not been resolved even up to 28 August 2015.

- (c) Even though the former Deputy Chairman had obtained Suwa Posha and Maw Posha packets on credit basis valued at Rs. 64,500 in the year 2011, these amounts had not been settled even by the end of the year under review.
- (d) Even though the sundry loans and advances amounting to Rs. 42,080 obtained by 09 officers had been outstanding for a period of 10 years, the Board had failed to recover the money.
- (e) The Board had not taken action to settle the amount of Rs.3,300,000 payable to the Paddy Marketing Board since the year 2011.
- (f) The Amended Act of the Board had not been presented to Parliament even as at 28 August 2015 as directed by the Committee on Public Enterprises at the meeting held on 01 October 2012.
- (g) Action in terms of Financial Regulation 104(4) had not been taken in respect of the cash theft amounting to Rs.77,352 occurred at Narahenpita trade stall in the year 2012. Further, action had not been taken to hand over a written assignment to the 03 Karyala Karya Sahayaka who act as the Shroff of this trade stall and take securities from them.

6. Systems and Controls

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

Area of Control -----	Observations Briefly -----
(a) Financial Control	Material variances revealed between the budgeted expenditure and the actual expenditure and action not taken to settle the loans.
(b) Personnel Administration	Staff had been recruited contrary to the provisions of Circulars
(c) Project Management	Projects not implemented as planned and projects incurred losses.
(d) Assets Control	Action not taken to value and account the lands belonging to the Board.

(e) Contract Administration

Contracts had been awarded for the constructions in the lands not belonging to the Board.