

## **Sri Lanka National Freedom from Hunger Campain Board – 2016**

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The audit of financial statements of Sri Lanka National Freedom from Hunger Campain Board for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 Campain Board Act No.15 of 1973. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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**

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

#### **2. Financial statements**

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##### **2.1 Qualified Opinion**

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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 Campain Board as at 31 December 2016 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**

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###### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following non-compliances were observed.

- (a) Sri Lanka Public Sector Accounting Standard 07
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The depreciation rates used for the depreciation on buildings and motor vehicles had not been disclosed in terms of Paragraph 86(c) of the standard.

- (b) Sri Lanka Public Sector Accounting Standard 09
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Contrary to the Paragraph 09 of the standard, the damaged stock, costing Rs.3,481,290 had been included in the closing stock of the financial statements.

###### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) The cash flow statement had not been prepared by identifying the activities, reflecting cash inflows and cash outflows during the year under review. The following deficiencies had existed in the cash flow statement presented.

(i) In adjusting for the computation of operational profit, the provision for employees gratuity had been understated by Rs.371,989 and the payment of gratuity amounting to Rs.569,140 made during the year under review had not been shown in the financial statements.

(ii) The re-investment of savings interest of Rs.31,641 for the year under review had not been shown under cash flows from investing activities.

- (iii) Write off of farmers debts relating to the previous years amounting to Rs.80,610 had been posted twice to the cash flow statement.
- (b) According to the revaluation report, the useful life of the Temporary buildings had been shown as 10 years whereas when it was depreciated the useful life had been taken as 19 years and as such the depreciation in the year under review had been understated by Rs.100,799.
- (c) The closing stock of the year under review had been overstated by Rs.1,938,769 in the financial statements.

## **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Although a former officer had obtained packets of Suwaposha and Mawposha valued at Rs.64,500 on credit basis in the year 2011, action had not been taken to recover the dues even by the end of the year under review.
- (b) In spite of the fact that a sum of Rs.3,300,000 had been shown in the accounts as an expenditure payable to the Paddy Marketing Board since 2011, according to the financial statements of the Paddy Marketing Board, there was no such a receivable amount.
- (c) Debtor balances brought forward from the years 2011, 2012 and 2013 totalled Rs.878,842. Action had not been taken to recover same.
- (d) Total creditors balances brought forward from 2 to 5 years and over 5 years amounted to Rs.390,560 and Rs.199,757 respectively. Action had not been taken to recover them.
- (e) The loan of Rs.5,500,000 obtained from the Farmers Trust Fund in 3 instances during the periods from 2010 to 2015 by the Board should have been settled in full by the end of the year under review. However, a balance of Rs.4,900,000 had been payable even by the end of the year under review.

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

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The following Non-compliances with regulations were observed.

<b>Reference of Regulations</b>	<b>Non-compliance</b>
<b>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>	
(a) Financial Regulation 177(1) and 371	<p>Although the collection money should be banked daily, cash collected at trade stall, Dehiwala and the Plant Nursery at Narahenpita had been banked after a delay of 6 to 12 days. Further, the approved Petty Cash Imprest of the Dehiwala shop amounted to Rs.70,000, but sums of Rs.131,092 to Rs.271,946 had been retained in hand by exceeding that limit.</p>
(b) Financial Regulation 751(1)	<p>Inventory and stock books had not been maintained by the Dehiwala Shop.</p>

### **3. Financial Review**

#### **3.1 Financial Results**

According to the Financial Statement presented, the financial results for the year ended 31 December 2016 had been a deficit of Rs.2,343,342 as compared with the corresponding deficit of Rs.13,925,060 thus indicating an improvement of Rs.11,581,718 in the financial results for the year under review as compared with the preceding year. Although the increase in transport, communication, utilisation and other services expenditure by Rs.17,608,143, increase of provisions received from the Treasury and the Ministry of Agriculture by Rs.22,391,535 and the increase of other income by Rs.9,018,043 during the year under review had mainly attributed to improve the financial results.

In analysing the financial results of the year under review and the preceding 4 years, a surplus in the year 2014 and deficit in the years 2012, 2013, 2015 and 2016 had existed in the financial results. In considering employees remuneration and the depreciation on non-current assets the contribution of Rs.17,768,473 in the year 2012 had increased to Rs.37,019,044 in the year under review.

#### **3.2 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 of the Board and without the approval of the Board of Directors and an agreed valued by deviating from procurement procedure. As the payment had not been made to the contractor, he had filed a case asking for a compensation of Rs.3,209,728 and it had not yet finalised even by the end of the year under review.

### **3.3 Utilisation of resources of the other government institutions**

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It was observed that 3 motor vehicles, 3 tractors, 01 motor vehicle and one motor vehicle belonging to the Ministry of Agriculture, Ministry of Economic Development, Mahaweli Authority and the Minor Crops Promotion Board respectively had been utilised by the Board without taking action to acquire them to the Board.

## **4. Operating Review**

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### **4.1 Performance**

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In terms of Sri Lanka National Freedom from Hunger Campaign Board Act No.15 of 1973, objectives of the Board include obtaining assistance of the non-governmental foreign and local agencies for the Social and Economic Development, assisting to institution and other Boards in the implementation of development programmes, assisting, improving and coordinating to schemes inclined to agricultural and industrial development and encouraging non-governmental agencies in the implementation and to Co-operate with International Freedom from Hunger Campaign Institutions and other similar foreign institutions.

- (a) In order to achieve the afore-said objectives estimates for the implementation of 12 projects, by spending a sum of Rs.617.91 million had been prepared by the Board in accordance with the Action Plan prepared for the year under review. Nevertheless, any of those projects whatsoever had not been implemented during the year under review.
- (b) Although it was expected to earn Rs.274 million worth of income during the year under review from 12 projects being implemented by the Funds of the Board, the income earned during the year under review was only Rs.75 million. The performance of the project implemented is as follows.

#### **(i) Thanamalwilla Farm**

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Any cultivation activity whatsoever had not been effected in this farm, consisting of 16 acres, and a sum of Rs.128,000 had been earned as rent income and the total expenditure of the year amounted to Rs.655,412.

#### **(ii) Buttala Compost Fertilizer Project**

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Compost fertilizer is processed in this land, 10 acres in extent and marketed. The quantity manufactured during the year under review amounted to 87,650 kg. However, a SLS certificate had not been obtained for this product.

#### **(iii) Consumer sales outlet at Dehiwala**

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The profit of the Dehiwala outlet had dropped by 83 per cent as compared with the previous year. Decrease in sales income by Rs.2,005,531 and increase in overhead expenses by Rs.424,755 had attributed to this drop.

**(iv) Healthy Food Cafeteria**

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The Healthy Food Cafeteria, opened somewhere in Narahenpita with the objective of creating a non-poisonous traditional indigenous food consumer pattern had not sold any such food. In considering its income and expenditure, the loss of Rs.406,765 in the year 2012 had gradually increased up to Rs.4,192,533 in the year 2015 and it was Rs.3,812,515 in the year 2016.

According to the physical verification carried out in audit in this cafeteria, considerable differences between the commodities purchased and the foods prepared were observed. Details appear below.

Commodity	Quantity	Foods to be Processed	Foods Processed	Variance
		Kg	(No.of packets)	(No.of packets)
Rice	1762	10,551	7,233	3,318
Fish	210	5,215	1,945	3,270
Meat	188	2,774	1,046	1,728

**(v) Narahenpital Plant Nursery**

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More percentage of the income of this plant nursery was obtained from the sale of various kinds of plants. At a physical verification carried out on 08 August 2016, there was a shortage of 102 plants valued at Rs.14,425 between the physical balance and the stock book balance.

**(vi) Rice Flour Promotion Project – Kalankuttiya**

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This project had incurred a loss of Rs.226,394 in the year under review and 83 per cent of the total cost had been spent for salaries and allowances.

**4.2 Management Activities**

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The following observations are made.

- (a) A directive had been given by the Committee on Public Enterprises met on 01 October 2012 to submit amendments to the Act of the Board but that directive had not been implemented as yet.
- (b) Although the draft charge sheet and the primary inquiry report in respect of the cash theft of Rs.77,352 occurred in the Narahenpita sales outlet in the year 2012 had been presented on 05 May 2015, action in that regard had not been taken even up to 25 May 2017, the date of audit.

- (c) According to the primary inquiry conducted by a Board of Enquiry in the Ministry of Agriculture on 28 July 2016 in respect of a fraud of Rs.73,415 occurred in the Healthy Foods Cafeteria at Narahenpita during the year under review, it was recommended to recover that money from the relevant employees but that money had not been recovered even up to 25 May 2017.

#### **4.3 Uneconomic Transactions**

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A sum of Rs.486,110 had been spent by the Board as expenditure incurred on name bonds, information boards, Logos and exhibition expenses for the non-poisonous National fair held in Colombo. Despite there was a possibility of using these name boards, information boards etc. in the second fair held in Ampara District, an another sum of Rs.550,000 had been spent therefor.

#### **4.4 Transactions of Contentious Nature**

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Away from the objectives of the Board, a sum of Rs.1,878,318 for 7 newspaper advertisements and live telecasting of “Govithenata Hari Magak” national programme on awarding fertilizer subsidy money and a sum of Rs.2,543,200 for the publication of advertisements in 8 newspapers relating to the media publicity of “Gamdora” program had been spent.

#### **4.5 Idle and Underutilised Assets**

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The following observations are made.

- (a) Two machines valued at Rs.452,000 purchased in the year 2012 for the maintenance of a bakery in the Dehiwala sales outlet had not been used and kept idle in the stores.
- (b) Attention had not been paid to invest a sum of Rs.806,008 existed in 3 savings accounts as at the end of the year under review in a useful investment.

#### **4.6 Personnel Administration**

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The following observations are made.

- (a) Although the approved cadre amounted to 28, the actual cadre stood at 71 due to recruitment of 43 employees in terms of Public Administration Circular No.25/2014 dated 12 November 2014. However, the approval of the Department of Management Services had not been obtained for the excess cadre.
- (b) In terms of Paragraph 7 of the afore-said circular, employees should be recruited on temporary, casual, substitute or contract basis after the prior approval of the Department of Management Services, after 12 November 2014. Contrary to that, 4 employees had been recruited on contract and daily paid basis.

- (c) Although the Department of Management Services had approved to recruit the Post of Deputy Director as a promotional grade, a newspaper advertisement had been published by incurring an expenditure of Rs.43,412 and an interview had been held to recruit the Post of Deputy Director (Development) externally, during the year under review.

## **5. Accountability and Good Governance**

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### **5.1 Budgetary Control**

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In comparing the budgeted income and expenditure and the actual income and expenditure in the year under review, variances ranging from 15 to 98 per cent were observed thus indicating that the Budget had not been made use of as an effective instrument of Management Control.

### **5.2 Procurement Plan**

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Although a provision of Rs.26,117,000 had been allocated for the 5 items included in the Procurement Plan purchases had not been made. A provision of Rs.3,310,000 had been made for the 3 items but purchase had been made only for the value of Rs.878,860.

## **6. Systems and Control**

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Weaknesses in systems and controls were brought to the attention of the Chairmen of the Board from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of Systems and Control</b>	<b>Observations</b>
(a) Financial Control	Revelation of variances between the budgeted and actual expenditure, not taking action to settle loans.
(b) Assets control	Vehicles not property acquired.
(c) Personnel Administration	Recruitments made not in compliance with circular instructions.
(d) Project Management	Non-implementation of projects as mentioned in the action plan and incurring losses by projects continuously being operated.