

## **Sri Lanka National Freedom from Hunger Campaign Board – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the of Sri Lanka National Freedom from Hunger Campaign Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 Finance Act, No.38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements of Sri Lanka National Freedom from Hunger Campaign Board give a true and fair view of the financial position of the Board as at 31 December 2018, 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**

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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 (SLAS). 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**

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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 intends 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 Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Bureau 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**

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

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over the Preparation of Financial Statements**

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Accounting Deficiencies**

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#### **Audit Observation**

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The interest receivable amounted to Rs.2,005,156 on fixed deposits during the year under review were not been taken to accounts.

#### **Comments of the Management**

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In preparing the accounts for the years 2017 and 2018, the interest was accounted as per the balances confirmed through the bank certification as at 31 December 2018 by the Bank. Since interest had not been adjusted for fixed deposits which were not matured take measures to look into this in the coming years and will calculate and account for interest at the normal interest rate.

#### **Recommendation**

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Interest receivable on fixed deposits should be calculated and accounted on accrual basis.

## 1.6 Non-compliance with the Laws, Rules, Regulations and Management Decisions etc.

The following observations are made.

	<b>Reference to Non-compliance Laws, Rules and Regulations etc.</b>	<b>Comments of the Management</b>	<b>Recommendation</b>	
(a)	Sri Lanka National Hunger Campaign Board Act No.15 of 1973.	The removal of the soil from the tanks and sale was not a main activity of the Board; soil in the tanks had been removed and sold to the highways.	The Tank Development Project is a special project with the approval of the Secretary to the Ministry of Agriculture and the Commissioner General of Agrarian Development Department.	Only the activities authorized by the National Hunger Board of Sri Lanka Act should be carried out.
(b)	Section 5 of the Sri Lanka Hunger Campaign Board Act, No.15 of 1973.	Even though, the Board of Directors should consist of 11 members, the Board Members that should be appointed by the Minister in charge of the subject of Home Affairs and the Minister in charge of the subject of Irrigation, Electricity and Highways, had not been appointed.	Although there is a shortage in appointing the members nominated from the Public Institutions in 2018, the Ministry of Agriculture has been informed to appoint members of the Board of Directors representing the State Institutions for the purpose.	The members of the Board of Directors shall be appointed as set out in the Act.
(c)	Public Finance Circular No.3/2015 dated 14 July 2015 and Financial Regulation 371(2)(b)	As per the provisions of the Circular, without the prior approval of the Treasury a sum of Rs.500,000 had been given to a Director to buy maize. The advances had been repaid after 22 days of without being utilized for the intended purpose.	When purchasing maize practical problems such as take several days for the farmers to pay by cheque, and many farmers do not have bank accounts to bank the relevant money were presented to the Board of Directors, and as a result the Director had been given Rs.500,000 on the approved Board paper No. 2561/387/2018. However, the advance amount was deposited lack as maize were not purchased.	When making advance payments to officers on special occasions, prior approval should be obtained from the Treasury.

(d) **Financial  
Regulations of  
the Democratic  
Socialist  
Republic of Sri  
Lanka**

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- (i) Financial Regulation 371
- Although in terms of the circular the sub-impressts should be settled immediately after the completion of work, sub-impressts totalling Rs.3,066,015 given in 193 instances during the year under review had been settled after a delay of 10 days to 137 days. Similarly, the officials who are keeping the government money with them and make settlements later have been given sub-impressts continuously. Before, setting one such sub-impresst a sum of Rs.2,488,800 had been paid to 12 officers another sub-impresst on 174 occasions during the year under review.
- Action had been taken to settle all advances due by 31 December 2018. In 2019, advances will be made only after the settlement of previous advances.
- Sub-impressts should be settled immediately upon completion of the work, and no any other sub-impresst should be made before the payment advance already given.
- (ii) Financial Regulations 371 (2) (b)
- A sum of Rs.770,000 had been obtained as sub-impressts by 07 officers in 19 instances had been settled after holding 10 days to 349 days without having being the job.
- Advances received for certain reason were settled upon post running or cancelling of the job.
- An advance payment should be made after examining and order should be made to settle the advance given immediately if the advance obtained is not used.

- (e) Public Administration Circular No.22/99 (xxxiii) dated 07 November 2017. Although the Public Officers holding the posts of Deputy/ Assistant Levels can only be provided group transport facilities, the Board had provided private transport facilities to the Assistant Director (Administration) and Assistant Director (Development) and a sum of Rs.72,254 and Rs.70,207 had been paid respectively for this during the year under review. The Board of Directors had instructed to take action in by the Board Minute No.2643/391/2018 and to recover the money within 6 months. Action will be taken accordingly the recommendations on the inquiry in terms of of the 104 Financial Regulations which are to be held in future. Money paid in lieu of transport facility should be recovered.

## 2. Financial Review

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### 2.1 Financial Results

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The financial result of the year under review amounted to a surplus of Rs. 41,940,044 and the corresponding surplus in the preceding year amounted to Rs. 37,472,381. Accordingly, an increase of Rs. 4,467,663 had been observed in the financial result.

The increase in the provision received from the General Treasury and the Ministry of Agriculture Rs. 8,827,615, the decrease in maintenance and repair expenditure on fixed assets by Rs.3,200,003, the income received from the import of maize project Rs. 41,075,571, the increase in interest on fixed and savings deposits by Rs.3,800,894 and increase in other income by Rs.1,908,097 were the main reasons attributed to the increase in financial result.

## 3. Operating Review

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### 3.1 Operating Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
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(a) Even though, a project had been implemented to purchase soya beans kilogram at Rs.97.57 from farmers organization for the purpose of protection of farmers who cultivated local soya beans, nevertheless, purchases had been made by spending more than that said price, at a cost Rs.107.97 from another	Instead of Soya beans purchased from farmers in Anuradhapura district purchases has been made from a different company on the ground the requirement of handing over order to Thripasha Company. Although it had to pay Rs.11.05 more by the institution only Rs.10.40 was paid to the above company.	Soya beans should only be purchased from Farmers' organizations at approved prices.

organization other than farmers organizations during the period 2016 to 2018 and incurred an additional cost of Rs.5,238,750 as the Rs.10.40 per each kilogram

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| (b) | The Thriposha company had rejected 34,740 kilograms of soya beans as those were not within the required specifications. Out of the rejected 5,500kg of stock had been used for the “Mauposha” produced of the Board. It has been observed that the stocks rejected by the “Thriposha” Company are not in the standard with nutritious ingredients which are aimed at creating a healthy society through the use of the “Mauposha” production. | The recyclable stock of 5.5 metric tons rejected by the Triposha company had been recycled for the produce of “Mauposha” which were in a good condition for human consumption. The rest was sold as animal feed. | Raw materials with appropriate specifications should be used for the production of the Board. |
| (c) | Two officers of the Board had been engaged to monitor maize purchases paying an expenditure cost of Rs.201,850, but maize had been purchased which were not in up to the specifications. The board had not taken any action in this regard.   | Not commented.   | The Board should take disciplinary actions in this regard.                                    |

### 3.2 Idle or Under-utilized Property, Plant and Equipment

Audit Observation	Comments of Management	Recommendation
(a) Four wheel tractor valued at Rs.200,000 and strong hook of plough of Rs.16,000 had been parked in the Kalangkuttiya factory for nearly five years.	The 1476 tractor has been removed from running since 2016 and action is taken to dispose at present. The hook plough is also to be disposed.	Should be repaired and used or disposed of.
(b) Four water pumps, eight electric motors, a plastic water tank (500l) and 1,976 usable rice flour cartons remained idled without been utilized.	These items are unusable and will not be repaired and will be disposed of in future.	If not usable, action should be taken to the dispose.

