

Head 300 - Food Commissioner's Department

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Food Commissioner's Department for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, and cash flow statement for the year then ended, 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 Summary Report containing my comments and observations on the financial statements of the Food Commissioner's Department was issued to the Accounting Officer on 29 June 2020 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Food Commissioner's Department was issued to the Accounting Officer on 08 October 2020 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared in accordance with the provisions of State Accounts Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Food Commissioner's Department as at 31 December 2019 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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 Chief Accounting Officer and the Accounting Officer on Financial Statements

The Chief Accounting Officer and the Accounting Officer are responsible for Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 .

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Department 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.

The Accounting Officer shall ensure that an effective internal control system is maintained and maintained for the financial control of the Department in terms of sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of Financial Statements

My objective is to express a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the Summary Report of the Auditor General 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 furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control , obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Sub-section 6 (1)(d) and Section 38 of the National Audit Act No. 19 of 2018 .

- (a) The financial statements are in consistent with those of the preceding year,
- (b) The recommendations made by me regarding the financial statements furnished for the preceding year had been implemented.

1.6 Commenting on Financial Statements

1.6.1 Statement of Financial Performance

Audit Observation	Recommendation	Comments of the Accounting Officer
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The balance of depreciation reserve fund amounted to Rs.76,673,230 that was transferred to Government Revenue by winding up the Food Purchase and Distribution Winding-up Advance Account during the year under review had also been included within the value of other receipts amounted to Rs.203,819,838 in the statement of financial performance.	The value of other receipts received from the operational activities should be brought to accounts enable to be clearly identified.	Agree with the observation.

1.6.2 Statement of Financial Position

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The value of the buildings assessed in the year 2019 amounted to Rs.347,410,000 had not been included in the value of the property, plant and equipment in the statement of financial position.	The value of property, plant and equipment should be properly accounted for.	Actions will be taken to correct it in future.
(b) A number of 34 buildings with a total of 479,603 square feet and 14 plots of land in 07 Districts had not been assessed and accounted for as assets of the Department even by 31 December 2019.	The value of the buildings and lands owned by the Department should be properly brought to accounts .	Agreed. Actions will be taken to physically examine, assess and include into the accounts.
(c) The value of Rs. 188,567,539 spent on the construction of the Dambulla Temperature Control Warehouse as at 31 December 2019 had not been shown in the statement of financial statements as assets-in-progress and capital assets reserves.	Ongoing assets and capital reserves should be properly accounted for.	This has been included as an appendix to the Financial Statement.
(d) The unsettled advances amounted to Rs.48,659,281 relating to the construction of the Dambulla Temperature Control Warehouse as at 31 December 2019 had not been mentioned in the statement of financial position.	The unsettled advance should be accurately accounted for.	This has been included as an attachment to the financial statement.

1.6.3 Reconciliation Statement of Advances to Public Officers Account

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) A difference of Rs. 332,250 was observed as per the Departmental Books of the Advances to Public Officers Account and the Treasury Computer Printouts. Actions had not been taken to resolve that difference even by 31 December 2019.	The difference remained in between the Departmental Books and Treasury Books needs to be resolved.	It is a difference remained since previous years and the reasons for the difference could not be able to identified.
(b) The arrears loan balances those were in receivable from 21 officers over a period of 20 years amounting to Rs. 739,967 had been written off with the approval of the Head of Department as losses and damages due to unavailability of information, in contrary to the Provisions of the Public Finance Circular No. 02/2016 dated 12 February 2016 .	It should comply with the Provisions of the Circular.	It is informed that the error will be rectified while preparing the Account of 2020.

1.6.4 Advance Accounts for Savings and Termination

Audit Observation	Recommendation	Comments of the Accounting Officer
Even though the provision of Rs. 200 million had been made available during the year under review to write off unrecoverable debtors and working losses in the Food Purchase and Distribution Winding-up Advance	Annual provisions should be applied with a proper planning and the Departmental Books and Treasury Books should be reconciled.	Actions will be taken to settle by discussing with the Treasury and to settle in future.

Account, the account had been winded up as per the Decision of the Winding-up Board without utilizing those provisions.

Further, even though there was no balance in the Purchase and Distribution Winding-up Advance Account as per the Department Books as at 31 December of the year under review, the balance therein was Rs.1,719,406 as per the Treasury Books.

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Estimates should be prepared with a prior assessment after identifying the necessity in accordance with Financial Regulations 50. Nevertheless, a 35 per cent overprovision had been made available out of the Estimated Provision for a recurrent expenditure object during the year under review.	Estimates should be prepared identifying the necessity with a pre-assessment.	Provisions for electricity had been made available for 06 scientific warehouses set up to store rice with a capacity of 50,000 MT in Veyangoda. These estimates have been prepared for the storage of rice in cases where there is an excess of rice in each period as it varies according to the government policy decisions.

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| <p>(b) The expenditure incurred under foreign grants in terms of Financial Regulation 208 amounting to Rs.99,820,040 had been accounted for as an expenditure incurred under the provisions of the Department in the Financial Statements.</p> | <p>Accounting should be carried out accurately.</p> | <p>Agreed. This will be corrected in future.</p> |
| <p>(c) Although the receipts of Supplementary Estimate provisions for the year under review was Rs. 400,000,000,000, it had been stated as Rs. 195,000,000.</p> | <p>Accounting should be carried out accurately..</p> | <p>Agreed.</p> |

2.2 Issuing and Settling of Advances to Public Officers

Audit Observation

Outstanding debt balance of Rs. 1,213,414 due from 19 retired, deceased, suspended and who have vacated service as on 31st December 2019 was outstanding for more than 5 years.

Recommendation

Should act in accordance with the Establishments Code.

Comments of the Accounting Officer

It can be recovered from the pensions of two retired officers and actions will be taken to bring the loan balance of one officer from the Divisional Secretariat and the loan balance of the other officer from the Department of Pensions. A suspended officer is paying installments and arrangements have been made to take legal actions to recover the debts of other officials and since there is no enough information about other officers, actions will be taken to write off from the Books in future.

3. Operating Review

3.1 Planning

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) A buffer rice reserve of 100,000 MT should be maintained to be utilized in times of crisis which is the primary function of the Department. Six warehouses in the Veyangoda premises with a storage capacity of 34,300 MT had been converted into scientific warehouses at a cost of Rs.292,311,945 to achieve that objective. However, the Department did not have any buffer stock of rice until 31 December 2019, after the depletion of 668 MT of stored rice to evaluate the success of the Pilot Project in 2013 .</p>	<p>Arrangements should be made to carry out prioritizing the role to be played to achieve the vision and mission .</p>	<p>Even though the provisions have been applied through the Annual Budget, the allocations had not been provided to maintain the rice stocks.</p>
<p>(b) Although the main function of the Department is to contribute to the government revenue by assessing the excess warehouses and houses and renting them out based on that assessment to make better use of the warehouses and houses owned by the Department, no plan whatsoever had been included in the Action Plan in this regard.</p>	<p>The Action Plan should be prepared in a way that the main tasks are accomplished.</p>	<p>Although it was not included in the Action Plan 2019, the Department was able to earn an income of Rs.95,513,144.92 from renting out warehouses and Rs.6,127,997.62 from renting out houses in the year 2019.</p>

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| <p>(c) No repairs whatsoever had been carried out at Orugodawatta, Ampara, Hambantota, Kahadawa, Jaffna, Nuwara Eliya and Badulla warehouses. However, out of the provision of Rs. 311.58 million made for the renovation of the warehouses as per the Action Plan, the financial progress as 93.25 per cent and the physical progress as 100 per cent had been stated in the Progress Report.</p> | <p>Progress reports should be prepared accurately.</p> | <p>Although the requested allocations has not been received from the General Treasury, the Shravasthipura, Boossa and Meddawatta warehouses were repaired as per the funds received.</p> |
| <p>(d) Despite the forklift machine amounted to Rs.5.5 million had not been purchased out of Rs. 5.63 million provision in purchasing of machinery as per the Action Plan, the financial progress as 99 per cent and the physical progress as 99 per cent had been stated in the Progress Report.</p> | <p>Progress reports should be prepared accurately.</p> | <p>A forklift had not been purchased as rice stocks were not maintained during the year 2019.</p> |
| <p>(e) Although the annual physical target in legal proceedings for lands, warehouses and houses belonging to the Department had been shown as 100 per cent in the Action Plan, only 30 per cent of that had been achieved in the year under review.</p> | <p>Taking legal actions need to be expedited.</p> | <p>In taking legal proceeding, decisions are made by the Hon. Court. Since the Department does not have authority to control the judiciary actions, it was impossible to achieve 100 per cent progress in legal proceedings.</p> |
| <p>(f) Although it had been stated the achieved target of acquiring ownership of lands belonging to the Department was 25 per cent in the Progress Report relating to the Action Plan, the ownership of any land had not been acquired during the year under review.</p> | <p>Arrangements should be made to take over the ownership of lands.</p> | <p>Relevant measures are being taken to take over the ownership of the lands and those activities are being implemented at each phase.</p> |

3.2 Asset Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) Even though the value of the lands and buildings of the Department as per the statement of financial position as at 31 December 2019 was Rs.4,659,567,477, the ownership of these lands and buildings had not been acquired to the Department and the certificate of transferring of lands issued under the Land Ordinance had not been obtained.</p>	<p>Ownership of lands and buildings should be acquired to the Department.</p>	<p>Activities on acquiring are being carried out.</p>
<p>(b) As a result of failure to recover the warehouse rent amounted to Rs. 58,870,238 out of Rs. 89,462,175 receivable as at 31 December 2019, those warehouses had been taken over by the Department. Even though lawsuits have been filed to recover the warehouse rent amounted to Rs. 4,506,576 due from the acquired warehouses, none of those court cases have been resolved even by the date of this report. Further, the following observations are made regarding the warehouse rent amounting to Rs.54,369,662 receivable whereas the Department had not taken any action.</p>	<p>Actions should be taken to recover arrears of warehouse rent.</p>	<p>The procedure for collection of warehouse rent has been followed and the relevant institutions have been informed through time to time reminders. Solutions have been received through discussions with the institution and arrangements have been made finally to take legal actions.</p>

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| <p>(i) The arrears of rent due for 09 warehouses given to Lanka Sathosa from September 2014 to December 2016 was Rs. 22,607,500.</p> | <p>Arrangements should be made to take necessary actions to recover arrears of warehouse rent.</p> | <p>The Lanka Sathosa has been informed. A response has not been received.</p> |
| <p>(ii) The arrears of rent receivable as at 31 December 2019 for 09 warehouses given to the Co-operative Wholesale Establishment was Rs. 27,234,985.</p> | <p>Arrangements should be made to take necessary actions to recover arrears of warehouse rent.</p> | <p>The institute has been informed from time to time to pay the arrears.</p> |

3.3 Management weaknesses

The following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>(a) An agreement had been entered into on 15 August 2019 for the lease of the canteen to a private company prior to the commencement of the procurement work without making repairs and renovations that should have been done in the canteen. However, after that date, that was as per the agreement entered into in November 2019, although it had been renovated at a cost of Rs. 4,951,000, actions had been taken to lease out based on the assessed price of the year 2015 without taking actions to revise the monthly rent obtaining a new assessed value for the canteen after the renovation.</p>	<p>Since more than Rs. 6,000,000 has been spent for the repairs, a new assessed value should be obtained.</p>	<p>It is informed that it will be amended in every 3 years.</p>

<p>(b) Due to weaknesses in planning of procurements and non-opening of the Departmental canteen on time, a rent income of Rs. 1,344,000 had been deprived.</p>	<p>Procurement activities should be carried out properly at the beginning of the year.</p>	<p>Since the bidder has not been handed over to properly conduct of business activities, it is observed that it is not fair to charge an arrears of rent.</p>
<p>(c) It had failed to recover the arrears of rent amounting to Rs. 791,190 which should be recovered from the leasing of the canteen in recent years even by the date of the audit.</p>	<p>The arrears of rent should be collected promptly.</p>	<p>Legal actions have been taken to recover the arrears.</p>
<p>(d) <u>Renovation of warehouses at Veyangoda Warehouse premises</u></p>		
<p>(i) Even though the voltage of the capacity of electricity was increased up to 1000 in upgrading 06 standard warehouses to scientific warehouses, the warehouses had remained idle due to unavailability of specific plans to implement plans for utilizing the warehouses. However, although rice had not been stored in any of the warehouses during the year under review, a cost of Rs.3,581,854 had been spent on electricity from January to December 2019.</p>	<p>Due to the high cost of electricity even if the warehouses remained in idle, proper planning methods for utilizing the warehouses should be developed.</p>	<p>Agree.</p>
<p>(ii) Even though the consultancy firm had recommended to charge a late charge of Rs. 4,886,004 for a 181 days delay for repair of warehouses No. 01 and 13, the Department had recovered only Rs. 819,704 for 31 days. Further, a sum of Rs. 2,518,085 to be reimbursed for the electricity consumed</p>	<p>Late fee should be charged as mentioned in the agreement and the electricity bill have to be reimbursed as stated in the bid document.</p>	<p>Actions have been taken to charge fines for 31 days after providing a grace period of 150 days to the contract company obtaining the recommendations in connection with the contract agreement at</p>

during the period of mechanical operation of the warehouses had not been reimbursed even by 31 December 2019 in terms of Paragraph 6.12 of the Register of Bids.

the request of the contractor. Actions will be taken to reimburse the electricity bill in future.

- (e) As a result of the Mill Owners had not provided the amount of rice to be provided in terms of the agreement entered into with the rice Mill Owners in the years 2012 and 2013 on the basis of providing rice for storage in Veyangoda Scientific Warehouse in 2012, the amount to be levied from Mill Owners was Rs. 7,390,700 . Even though the it had been referred to the Attorney General's Department in 2017 for carrying out legal actions in this regard, a lawsuit had not been filed even by the date of this report.
- Actions should be taken to recover the amount receivable.
- It is informed that the legal actions are being taken.
- (f) A land with 2.0069 hectares in extent owned by the Urban Development Authority had been used for the activities of the Dambulla Temperature Control Warehouse Project which was commenced in the year under review and the land had not been taken over by the Department even by 31 August 2020.
- The ownership of the land should be acquired.
- Answers had not been received.
- (g) A sum of Rs. 188,567,539 had been paid for the Dambulla Thermal Control Warehouse Project aiming to reduce post-harvest losses of vegetables and fruits and reduce price fluctuations during the year under review and the physical progress for that date was 35.5 per cent.
- The works of the project should be completed according to the agreement.
- Answers had not been sent.

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| <p>(h) Veyangoda Scientific Warehouse No. 08 had been handed over to the Consumer Co-operative Society of Sri Lanka Ltd. for the storage of potatoes in the year 2018. The stored potatoes had rotten and water leaked and the damages had occurred to all the machinery and equipment in the warehouse. As a result, the warehouse could not be used for any purpose and 1 1/2 years had elapsed after closing of this warehouse by the date of this report. Even though the loss occurred to this warehouse had been estimated to a Rs. 3,315,000 by the relevant consulting firm, the loss had not yet been recovered even by the date of this report.</p> | <p>Taking measures to recover the loss and to achieve the objectives of building of the warehouse after recovering the loss and repairs.</p> | <p>The association has been informed to take actions to pay the relevant losses immediately.</p> |
| <p>(i) Veyangoda No. 07 Scientific Warehouse with a capacity of 5400 MT had been given to a government institution for storing of pumpkins during the year under review. The Department had paid Rs. 1,207,339 for electricity expenses for the period of storage without reimbursement from the relevant institution for the warehouses. A 79.36 per cent of the stock of pumpkins stored in the warehouse had spoiled and the warehouse remained idle without utilization even by the date of this report.</p> | <p>Actions should be taken to utilize the warehouse and to reimburse the cost of electricity.</p> | <p>It has been informed to reimburse the cost of electricity</p> |

3.4 Dormant and Underutilized Property and Plant

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The Veyangoda Natural Scientific Warehouse No. 10 and Mechanical Scientific Warehouse No. 10 with a capacity of 10,800 tons had remained dormant from 01 January to 31 December 2019. Even though the warehouses were modernized with the aim of maintaining safe stocks of rice, necessary actions had not been taken to achieve that objectives or to rent out to obtain an income of Rs. 4,320,000 which was the value of annual assessed rent.	Formulate necessary methods required to achieve the objective of warehouse renovation and formulate proper plans for storage utilization of warehouses and implement them.	Even though the allocations were requested from the Annual Budget to maintain the rice stocks, the warehouses could not be utilized due to non-allocation of funds.
(b) Two warehouses at Shravasthipura, Anuradhapura had been reconstructed in the years 2018 and 2019 at a cost of Rs. 29,628,902 and handed over in August 2019. However, these warehouses remained dormant until 31 December of the year under review due to the fact that these warehouses were repaired without drawing attention on the lifespan of the warehouses before the reconstruction.	Actions should be taken to develop the methods required to achieve the objective of repair of warehouses .	Although it was expected to store rice, the required provisions had not been received.

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| <p>(c) Even though a sum of Rs.50,101,059 had been spent to rehabilitate two warehouses in Boossa, Galle in the years 2018 and 2019, no steps whatsoever had been taken regarding the utilization of the warehouses even by 31 August 2020.</p> | <p>Actions should be taken to develop the methods required to achieve the objective of repair of warehouses and to utilize the warehouses.</p> | <p>Although it was expected to store rice, the required provisions had not been received.</p> |
| <p>(d) Even though a sum of Rs. 6,524,966 had been spent for the reconstruction of the Matara Meddawatte Warehouse in the year 2018, no steps whatsoever had been taken regarding the utilization of the warehouses even by 31 August 2020 .</p> | <p>Formulate necessary methods required to achieve the objective of warehouse renovation and formulate proper plans for storage utilization of warehouses and implement them.</p> | <p>Warehouses are utilized for various purposes of the Government.</p> |
| <p>(e) As a result of failure to use the bridge scales valued at Rs. 4,500,000 in the Veyangoda District Granary, it had remained underutilized.</p> | <p>It should formulate proper plans for the utilizing of bridge scales and implement them.</p> | <p>Sathosa rice has been consumed during the period of storage.</p> |

4. Human Resource Management

Audit Observation

The approval had been given by the Department of Management Services with regard to 229 employees in 18 posts during the Restructuring of the activities of the Department as per the Decision of Cabinet of Ministers No. 403 / 08/1481/342/016 dated 27 August 2008. In addition, two officers had been appointed for the posts of Quality Control Officer in 2015 and Grain Surveyor in 2018 with regard to 03 approved posts. However, as a result of the Department had not maintained buffer stocks of rice, other duties had been assigned to these officers.

Recommendation

A system should be developed to carry out the duties relevant to the post.

Comments of the Accounting Officer

Recruitment of employees had been done on demand.