

Head300, 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 2021 comprising the statement of financial position as at 31 December 2021 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. In terms of section 11(1) of the National Audit Act, No.19 of 2018, the summary report including my comments and observations on the financial statements of the Food Commissioner's Department was issued to the Accounting Officer on 25 May 2022. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 18 July 2022 in terms of Section 11(2) of the National Audit Act. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Food Commissioner's Department as at 31 December 2021, 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

My opinion is qualified based on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of the 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 judgement and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit

1.5 Report on Other Legal Requirements

I express the following matters in accordance with Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made by me relating to the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Non-compliance of Financial Statements with Circular Provisions

The financial statements should be prepared in terms of State Accounts Guideline No.03 issued by the Department of State Accounts. However, instances of non-compliance with those provisions appear below.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) According to the budget estimate, the total expense of Rs.570,950,000 was financed by local funds (11) and foreign financing related costs (17) with Rs.549,950,000 and Rs.21,000,000 respectively. However, it was mentioned that the entire cost of ACA 2(IV) and ACA 2(V) model was financed by local funds (11).	The total expenditure has been recorded in local fund (ii) by a mistake.	Circulars should be followed.
(b) Purchases of Rs.682,120 purchased during the year under other machinery equipment were not included in the treasury prints (SA 82).	The computer equipment purchased in the year 2021 has been duly included in the CIGAS programme.	Circulars should be followed.
(c) Rs.186,604,076 of revenue collected by the reporting agency on behalf of other income heads was not included in the imprest reconciliation statement. Although the expenditure incurred by the reporting institution for other heads was Rs.14,075,525, it was stated as Rs.198,689 in the imprest reconciliation statement.	Agreed.	Circulars should be followed.

- (d) Even though the revenue collected by the reporting entity on behalf of other revenue accounting officers should not be included in the financial performance statement in terms of the paragraph 7.2 of State Accounts Circular No. 2021/03 dated 26 November 2021, an amount of Rs.186,604,076 collected by the department on behalf of other revenue accounting officers was shown under other receipts in General Ledger accounts and the amount of Rs.5,337,146 was shown as other payments in the General Ledger accounts in the financial performance statement.
- It will be corrected and submitted.
- Circulars should be followed.

1.6.2 Accounting Deficiencies

(a) Property, Plant and Equipment

Audit Observation	Comments of the Accounting Officer	Recommendation
Even though closing balance of the last year in respect of inventory was Rs.3,489,301,978 according to the Treasury computer printout (SA 82), the opening balance of the year under review was overstated by Rs.127,300,000 by stating it as Rs.3,616,601,978. Even though the overstated amount of Rs. 127,300,000 was stated as abuse, no evidence of such abuse was revealed during the year under review.	There was no any alteration related to warehouses in the year 2021, and it was informed that the information reported in 2020 in SA82 reports has been reported in year 2021 also.	Actions should be taken to disclose correct information from the accounts.

2. Financial Review

2.1 Management of Expenditure

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The total provision of Rs. 4,000,000 made for a recurrent object category and a capital object category, was left.	These provisions have remained since the priority was given for repair of only essential warehouses of the department and postponing the vehicle repairs due to Covid situations.	Making over-provisions through annual estimates should be controlled.
(b) There was a balance of Rs.1,547,651 out of the net provision of Rs.1,800,000 made for 02 capital objects ,and it was ranged between 28 percent and 98 percent of the net provision.	The provisions were left as a result of that only the essential activities of these objects had been carried out due to the Covid epidemic situation.	Making over-provisions through annual estimates should be controlled.
(c) The provisions made to 06 objects had been transferred to other objects due to redundancy and deficiency, and 88 percent and 64 percent of the allocations that had been transferred to objects 1101 and 1402 respectively by F.R.66 were left by the end of the year.	Agreed with the observation.	Transfer of Financial provisions according to F.R. 66 should be done considering the need of such transfer.
(d) Even after transferring a 26 percent or Rs. 4,375,000 of the provision of Rs. 17,000,000 made for other allowances -1003 for other objects, there was a provision of Rs.2,452,865 left by the end of the year. Accordingly, it was observed that the estimates have not been prepared properly due to the availability of transfers of 40 percent and the balance compared to the estimated.	Over-provision estimates were prepared in the preparation of estimates as they were prepared based on the approved cadre.	Actual estimates should be prepared.

- (e) Provision of Rs. 250,000 had been made for the object of local travel expenses- 1101 in the budget estimate, and an additional provision of Rs.1,000,000 had been obtained under the transfer of F.R.66. Even though the reason for remaining 70 percent of the revised estimate is given as receiving a value more than the estimated amount during the transfer of F.R.66, an additional provision of Rs. 1,000,000 had been requested when applying according to F.R.66.
- The provisions were left due to the requirement of 100000 being shown as 1000000 when transferring deficient provisions.
- F.R.66 transfers should be done considering the need of such transfer.

2.2 Incurring of Liabilities and Commitments

----- Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) Liabilities totaling Rs.2,259,528 were recorded under note (V) of the financial statements in the absence of provisions transferred to the deposit account in terms of Financial Regulations 215 (3) (b) and (c).	It was re-corrected and submitted with answers.	Financial statements should be prepared correctly.
(b) Rs. 236,563 related to traveling expenses, overtime, holiday wages and acting allowances were stated under note iv in the statement on commitments reached in terms of the F.R. 94 (2) and (3). Moreover, a sum of Rs. 2,022,965 related to payments for Annually Recurrent Services or Supplies stated in the statement on commitments (note iv) reached under (2) and (3) of F.R. 94 was stated in the statement of liabilities and obligations under note (iii).	It was re-corrected and submitted with answers.	Financial statements should be prepared correctly.

- (c) Even though the rates payable for the year under review which was paid in the year 2022 was Rs.301,138, the said amount was not shown as liabilities. Rate estimates relevant to Rs. 301,138 had not been received during the relevant period. Therefore, it was not recorded in statement on commitments and liabilities as at December 31. Financial statements should be prepared correctly.

2.3 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Value (Rs.)	Non-compliance	Comments of the Accounting Officer	Recommendation
(a) Financial Regulation 571	19,945,778	No action was taken as per F.R. 571 regarding the deposit balances with a total value of Rs.19,945,778, which exceeded 02 years. There was a balance of Rs.5,816,443 ,which exceeded 10 years ,and a balance of Rs.7,728,263 ,which was between 5 and 10 years therein.	Among the deposit balances that exceeded 2 years of the general deposit balances as at 31 December 2021 and deposit balances for warehouses and residencies already occupied on rent basis are included.	Financial Regulations should be followed.

(b) Paragraph 4.5 of State Accounts Guideline No. 2021/02 dated 26 October 2021	457,216	The liabilities of Rs.457,216, which were not disclosed as expenses payable in the accounts during the year under review, were settled in the month of January 2022.	In collecting information for the preparation of financial statements for the year 2021, information has been provided for the statement on commitments and liabilities only until the end of January 2022.	Circulars should be followed.
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2.4 Operation of Bank Accounts

----- Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
----- An amount of Rs.580,718 directly credited to an account from 10 February 2020 to 27 December 2021 was not identified and accounted for.	Confirmations for unrecognized receipts have not been received so far and measures are being taken to inform individuals and institutions that have made identifiable receipts and obtain confirmation.	Unrecognized receipts should be promptly verified and accounted for.

3. Operating Review

3.1 Vision and Mission

Audit Observation	Comments of the Accounting Office	Recommendation
<p>Food Commissioner's Department is functioning under the vision of "To ensure that each household is provided nutritious, essential food items without any shortage.", and under that,</p>	<p>A control price was imposed for rice by the government in year 2021, and later, there was a rapid increase in the price of rice in the local market with the removal of the control price by the government. It was suggested to import rice in response to this, and Rs. 200 million provisions, which had been given to the Food Commissioner's Department for keeping a safe stock of rice, was given to the Sri Lanka State Trading (General)</p>	<p>The related activities to fulfill the vision and main objectives of the institution should be implemented without delay.</p>
<p>(a) Maintaining a special buffer stock of rice 8000 MT according to the Colombo Charter and the 16th summit meeting of the South Asian Association for Regional Cooperation (SAARC).</p>	<p>Corporation to import rice through Sri Lanka State Trading (General)</p>	<p>Corporation and distribute across the country through Sathosa. It was expected to control the price of rice by making the availability of rice in the country through this.</p>
<p>(b) According to the Cabinet decision dated 27 April 2008, maintaining a safe rice buffer stock of 100,000 MT in the warehouses owned by the Food Commissioner's Department throughout the island. Although identified as priority tasks, the department did not deal with accordingly during the year 2021.</p>		

3.2 Assets Management

Audit Observation	Comments of the Accounting Officer	Recommendation
The assets owned by the department were last assessed in year 2019 ,and 96 lands and warehouses in 10 districts were assessed. 28 lands and buildings in 15 districts remained for assessment further by 31 December 2021.	It was not possible to assess the assets due to the situation of the COVID-19 epidemic in the country and the movement restrictions prevailed in the year 2020 and 2021. Necessary further steps will be taken to carry out the relevant assessment during this year.	The assessment process should be completed expeditiously.

3.3 Losses and Damage

Audit Observation	Comments of the Accounting Officer	Recommendation
No measures had been taken to obtain Preliminary reports and full reports and charge or write-off the relevant amount by conducting an investigation regarding the balances that are being prevailed for a long time in losses and omission, in terms of F.R. 104.	No comments were made.	Financial Regulations should be followed.

3.4 Management Weaknesses

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) A difference of Rs.332,250 was observed among the departmental books and the treasury computer printouts of Government Officers' Advance B Account being prevailed from previous years. No measures had not been taken to settle by 31 December 2021.	This difference which comes from previous years is being tried to be identified, and no results have been found so far. Efforts are being made to find out and settle this difference as much as possible.	Measures should be taken to identify the difference.

- (b) No measures had been taken to recover the debts of Rs. 1,697,190 due from deceased officers, retired officers, were suspended and officers who vacated the post. Measures are being taken to write-off the information on loan balances due from deceased officials, retired officials in due course as it was not possible to find their information. The loan balances of 06 officials who retired in the year 2020 have already been settled, and necessary arrangements will be made to settle the loan balance of a retired officer whose loan balance is less than one year. Necessary measures are being taken to get information regarding current status of officers who were suspended and vacated the post and whose outstanding loan balances are less than one year from the Administration Divisions to recover their outstanding loan balances. The old debt balance should be settled according to the provisions of the Establishment Code.
- (c) An emergency disaster pool of South Asian regional countries should have been maintained in Sri Lanka according to the Colombo Charter and the 16th Summit Meeting of the South Asian Association for Regional Cooperation (SAARC). It was identified as a major function of the department, and Rs. 200 million was estimated for it in the procurement plan for the year 2021. However, the department had not performed the same, and the allocated provisions were transferred to Sri Lanka State Trading (General) Corporation for rice importation. Arrangements have been made to import 50,000MT of rice through the Sri Lanka State Trading (General) Corporation based on the provisions of the Food Commissioner's Department and store in the department's warehouse located in Veyangoda. Measures should be taken to perform the tasks according to the objectives of establishing the institution.

- (d) The department had 93 warehouses with a capacity of 223415 MT, and 75 warehouses with a storage capacity of 180,895 MT out of these warehouses were given to external parties. A tax amount of Rs. 63,955,810 was due from 24 lessees in respect of 55 warehouses as at December 31, 2021. Rent amounting to Rs.44,070,840 were received as at 30 April 2022, and those who did not make payments properly were informed to make payments before 30 June 2022. Actions should be taken to collect rent on due date.
- (e) Only 16 of the warehouses owned by the department were in the custody of the department. There was no storage of rice in them in the year 2021. Furthermore, an expenditure of Rs. 16,822,621 was incurred during the year for modernization of the Hambantota warehouse. A large amount of rice is produced in Hambantota district in the Southern Province. Therefore, according to the request made by then Minister of Agriculture to modernize and use the warehouse, measures were taken to repair and use the warehouse. It should be ensured that the warehouses owned by the department do not remain idle, If not utilized for the needs of the department, Measures should be taken to earn income by leasing to other parties.
- (f) The two warehouses in Vavuniya and Kanduruwela ,of which the storage capacity was 3655 MT owned by the department, were abandoned. The files were not submitted to the audit for the same. A board of survey in relation to those warehouses was not conducted. These two warehouses were not used after 2012 and at a state that need to be modernized. Therefore, it is planned to be modernized and put into use by the budget provisions2023. Non-financial assets of the government should be properly managed and utilized with maximum efficiency.
- (g) The amount of Rs.6,102,932 due from one rice mill owner had not been recovered by 15 February 2022 in terms of the agreement reached with the rice mill owners in the years 2012/2013 regarding the scientific warehouse in Veyangoda. Arrangements have been made to file a lawsuit to collect the amount of Rs.6,102,932 due to the Food Commissioner's Department. Measures should be taken to recover the arrears.
- (h) The department does not have records of payment of electricity bills of all warehouses belong to the department, and the records were maintained only in relation to 07 warehouses which were given on rent and storage rents are Most of the warehouses belong to the department were contractually given to private institutions on rental basis, and the electricity bills related to those warehouses are The details related to settlement of the bills of the warehouses belonging to the department should be kept in the institution.

reimbursed. Electricity bills of Rs.8,082,214 and water bills of Rs.275,094 for the year 2021 related to 06 warehouses were not reimbursed.

properly paid by the same institution. Therefore, it was informed that there are no documents about the electricity bill payments.

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| (i) | <p>The department incurs expenses for renovation, water, electricity and employee salaries for the warehouses owned by the department. However, directly identifiable records of the total cost incurred for each warehouse was not maintained by the organization. Any such internal control system for warehouse management had not been identified by the department.</p> | <p>The institute has a limited cadre. The objectives of the department are to increase the productivity and efficiency of the warehouses owned by the department. However, the payments for renovation, water, electricity, and employee salaries are made by the treasury provisions. Accordingly, the Department has records of expenses incurred.</p> | <p>Steps should be taken to introduce a proper internal control system.</p> |
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4. Achievement of Sustainable Development Goals

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>The department had identified to implement the sustainable development goals of ending hunger by 2030. Even though the a Attention was drawn</p> <ul style="list-style-type: none"> • Prevention of food price fluctuations • Maintaining food reserves, <p>under the same, attention was drawn only on building warehouses by the year 2021, and there was no any food reserve in the warehouses owned by the department.</p>	<p>Agreed</p>	<p>Attention should be drawn on achieving goals.</p>

5. Good Governance

5.1 Internal Audit

Audit Observation	Comments of the Accounting Officer	Recommendation
No arrangements were made to appoint an internal auditor in accordance with the section 40.2 of the National Audit Act No. 19 of 2018.	It was informed that the department does not have an internal audit division.	The Act should be followed.

5.2 Audit and Management Committee

Audit Observation	Comments of the Accounting Officer	Recommendation
No audit Management Committees were appointed in terms of the Section 41 of the National Audit Act No. 19 of 2018.	It was informed that it is not possible to hold audit management committee meetings at the departmental level since the department does not have a revenue head or an Internal Audit Division.	The Act should be followed.

6. Human Resource Management

Audit Observation	Comments of the Accounting Officer	Recommendation
The approved cadre of the department was 214 and the actual cadre was 105 ;and therefore, there were 109 vacancies.	A request has been made to the Secretary of the Ministry of Public Services, Provincial Council and Local Government and the Director General of Combined Services to fill the vacancy.	Measures should be taken to fill the vacancies.