

## **Sri Lanka National Freedom from Hunger Campaign Board - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka National Freedom from Hunger Campaign Board for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2021, 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 on the matters described in paragraph 1.5 of this report.

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 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 Institute'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 intend to liquidate the Institute 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 Section 16(1) of the National Audit Act No. 19 of 2018, the Board 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 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 Institute'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 Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit Observations on the preparation of Financial Statements

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### 1.5.1 Accounting Deficiencies

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<b>Audit Observation</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
A sum of Rs.1,451,198 was spent in the year under review, on the 10-acre Buttala farm land for land development works such as preparation of a tube well, repair of elephant fence, construction of a compost yard and an advance of Rs.500,000 was paid to the Department of Agricultural Development in the year under review, for the restoration of the minor irrigation tank on the 16-acre Tanamalwila farm land, but the ownership of the lands was not transferred to the board and not shown in the financial statements.	I agree that the note has not disclosed that the ownership of the land has not been transferred. I will take action to prevent such things from happening in the future. Also, the necessary steps are being taken to take over this land on long-term lease and it is in the final stage.	Actions should be taken to take ownership of the land immediately.

## 1.6 Accounts Receivables and Payables

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### 1.6.1 Receivables

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<b>Audit Observation</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a) According to the financial statements of the Board as of 31 December 2021, there were debtor balances of Rs.691,211 more than 08 years old from government institutions, private institutions and individuals and it was further observed that some of the debtors mentioned in the debtor register were fake.	The official appointed by the State Ministry of Agriculture to conduct an investigation as per Financial Regulations has stated that the assistance of an officer with knowledge of financial affairs is necessary. For that, a letter has been sent to the Secretary of the State Ministry of Agriculture.	Debtor balances should be recovered promptly.
(b) Out of the receivable balance of Rs.3,185,489 as on 31 December 2021, a sum of Rs.512,381 had not been	Legal action has been taken to recover the debt of Niraj Priyashantha Malaviarachchi. The amount of	Arrangements should be made to recover the money immediately.

recovered for more than 02 years.

Rs.67,282 to be charged from the rice project has been recognized as an exchange of goods within the institutions and it has not been recovered so far. Reminder letters have been sent to recover other debts.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc

	<b>With reference to laws, rules, regulations etc</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Financial Regulations of the Democratic, Socialist Republic of Sri Lanka F.R. 104	Investigations related to the misplacement of 37,223 kg of soya beans valued at Rs.4,094,596 in the Anuradhapura Upuldeniya warehouse in the year 2018 was not carried out and no action was taken to recover the losses from the responsible parties.	According to the F.R. 104 investigation, the responsible parties were also told to pay the amount of Rs. 4,094,596.	Damages should be recovered from the responsible parties.
(b)	F.R. 371 (2) Amended by Public Finance Circular No. 01/2020 dated 28 August 2020.	Although the Ad-hoc sub imprests should be settled immediately after the completion of the work, it was taken 07 days to 199 days to settle 24 advances of Rs.660,400 given to 06 officials in the year under review for travelling expenses, various purchases and entertainment expenses.	I accept that several advances could not be settled within the relevant period due to the closure of the Board due to the situation of the Covid-19 pandemic. Action will be taken to prevent it from happening in the future.	Advances shall be settled as per circular provisions.
(c)	Public Finance Circular No. 01/2014 dated 11 February 2014	The revised action plan of the board for the year 2021 did not include the updated organizational structure for the relevant year, details of the approved staff and existing staff, the budget document for the relevant year, the procurement plan for major procurements, the plan of imprest requirements for annual activities.	The action plan has been prepared according to the format provided by the Ministry of Agriculture. Action will be taken in the future according to the instructions given by the audit.	Annual action plan should be submitted as per circular.

## 2. Financial Review

### 2.1 Financial Results

The financial result of the year under review amounted to a deficit of Rs. 3,828,645 and the corresponding surplus in the preceding year amounted to Rs. 12,505,208. Therefore a deterioration amounting to Rs. 16,333,853 of the financial result was observed. Decrease in the Provisions received by the Government and Ministry of Agriculture by Rs. 11,279,307 and decrease in the other operating income by Rs. 4,352,757 and decrease in the interest income by Rs. 3,604,784 are main reasons for this deterioration of the financial results.

### 2.2 Trend Analysis of major Income and Expenditure items

Compared to the previous year, the Treasury / Ministry grants, other operating income, interest income and other income had decreased by 23, 52, 24 and 58 percent respectively. Also, employee Emoluments, supply and necessary costs and transportation, communication, utility and other costs and fixed asset repair and maintenance costs had decreased by 09, 11, 03 and 10 percent respectively.

## 3. Operational Review

### 3.1 Management Inefficiencies

#### Audit Observation

In the years 2017 and 2018, soil was removed from the tanks and sold to highways, which was not the purpose stated in the Sri Lanka National Freedom From Hunger Campaign act No. 15 of 1973. An expenditure of Rs.3,370,595 was incurred for the removal of soil and an income of Rs.81,134,631 was obtained from the sale of soil for highways. According to the tank project report, although it was stated that the board should get money from the relevant farmer organizations for the provided soil, and use that money along with the government's allocation to develop small tanks to the proper standard under the engineering consultancy of the Department of Agricultural Development, without doing so, a sum of Rs.77,764,036 was retained in a fixed deposit account.

#### Management Comment

According to the Act of the Board, this development work has been carried out by the Board in the years 2017/2018 in order to fulfill the objectives of the Board No. 04 under the powers of the Board according to General Objective No. 02. The Secretary of the Ministry of Agriculture has given verbal instructions not to use this money for any purpose until the amount earned from this project is planned to be used for a development purpose in order to benefit the relevant farmer organizations based on the instructions given by the Ministry. Accordingly, it is held in a permanent deposit.

#### Recommendation

The functions shall be performed as per the Act of the Board. Money in fixed deposits should be invested effectively.

### 3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) More than 60 per cent of the overhead cost of Tanamalvila Farm was spent on salaries and wages and due to the decrease in income, a net loss was made from 2017 to 2021. In the year 2021, the net loss was Rs.874,826 as no income was received.	It is planned to direct this farm to a sustainable development project in the future. The amount spent for the salaries of the two employees employed for this purpose is shown as the net loss of this project.	The farm should be managed to make a profit.
(b) 05 projects out of 08 projects such as seedling nursery, traditional rice marketing project and farms conducted by the board in the year under review had net losses and the net loss of those 05 projects was Rs.8,400,212.	Most of the projects that were run in the regional offices belonging to our board were not implemented from the year 2020. Even though, no project is implemented such as Dehiwala Agro Fresh Outlet, Narahenpita Saplings and Agricultural Inputs Outlet, Thanamalvila Farm, Traditional Rice Project and Kalankuttia Factory etc. but all the projects are showing a net loss as only salaries and wages to employees attached to those projects, and administrative expenses have been paid.	The board should implement the projects in a profitable manner.
(c) The board, which had made a profit in the last 4 years, had made a revised net loss of Rs.3,828,645. It was observed that the existence of minimum performance in most of the projects carried out by the Board has affected the overall financial performance.	Due to the fact that some of the revenue-generating projects conducted by our company were shown by the audit to be irrelevant to our company, the lack of motivation by the top management to implement such projects has greatly affected this situation. Ex 1- Maize imports, Ex 2- Tank projects. But through these kinds of projects, our company generated a huge profit and rendered a great service to the beneficiaries. Therefore, in the future, action will be taken to discuss with the top management and implement income generating projects.	Actions should be taken to turn loss-making projects into profit-making.
(d) Mawposha Project, Suvaposha Project, Dosa Flour Production Project, Soya-based Food Production Project, Fruit Drink Production Project etc. done by Gannoruwa Food	The indicated situation is real and to revive these projects, it is working with the Gannoruwa Food Research Unit.	Actions should be taken to keep active of inactive projects.

Technology Unit, Department of Agriculture were all stopped by the Board during the period of 03 years from 2019 to 2021 due to malfunctioning of machines and raw material supply problems.

#### **4. Accountability and Good Governance**

##### **4.1 Tabling of Annual Reports in Parliament**

###### **Audit Observation**

The annual performance reports of 2015, 2016, 2017, 2018, 2019, 2020 and 2021 were not tabled in Parliament.

###### **Management Comment**

The 2015/2016 Annual Reports have been presented to Parliament. Cabinet approval has been received for the 2017 annual report. The 2018 Annual Report is being printed for submission to Parliament. The translation of the 2019/2020 annual reports is underway.

###### **Recommendation**

Annual reports should be tabled in Parliament without delay