

## **Sri Lanka National Freedom from Hunger Campaign Board - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka National Freedom from Hunger Campaign Board for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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, the Sri Lanka National Freedom from Hunger Campaign Act No.15 of 1973 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 2022, 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**

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**

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 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

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 related to the preparation of financial statements

### 1.5.1 Accounting deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Instead of Rs.286,775 which was received from disposal of assets of the Board, the cost of those assets of Rs.737,477 has been shown under investment activities in the cash flow statement and therefore, the cash flow generated under investment activities had been overstated by Rs.450,702.	It is accepted that the amount of Rs.286,775 should be shown as income from disposal of assets under investing activities in the cash flow statement.	Only cash receipts from disposal of assets should be included in the cash flow statement.
(b) Even though the sapling worth Rs.81,960 of Dehiwala shop of the Board were destroyed, the value of the profit and closing stock had been overstated due to that value was not adjusted in the financial statements of the year under review.	Although the value of sapling death was Rs.81,960 in the year 2022, Rs.9,690 which was during the physical stock count as of 31.12.2022 has been taken as stock loss in preparing the final accounts.	The entire loss for the year should be accounted.
(c) The board entered into a project agreement in the year under review with a private company which produces biscuits in Colombo area and the Bureau of the Rehabilitation Commissioner General to grow and supply maize and these production had been started on private company financial contribution of Rs.18,000,000 and on the supply of labor by the Bureau according to the agreement. Although Rs.15,002,995 had been incurred as expenses, while the relevant works were not completed, it was observed that the expenses and income of the year had been shown more than those values due to the fact that the expenses and receipts incurred has been shown in the financial statements	It is acknowledged that the income and expenses incurred in the agreement with the Board and the Plaintiff Foods Pvt. Company and the Bureau of the Rehabilitation Commissioner together have taken as income and expenses of the Board. It is shown as hidden income and expense due to failure in do so and it will be shown by a separate account next year.	Income and expenses of the project should be accounted separately.

instead of being shown in a separate project account.

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| (d) | The ownership of 02 motorcycles belonging to the Ministry of Agriculture, a car and a car belonging to the Minor Export Crops Promotion Board, which have been in use by the board for a long time, had not been transferred to the board, evaluated and included in the financial statements. | Requests have been submitted to the Ministry of Agriculture regarding this takeover. | Motorcycles and vehicles should be taken over and included in the financial statements. |
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## 1.6 Amounts receivable

Audit Observation	Comment of the Management	Recommendation
The investigation had not been carried out and the losses had not been recovered related with financial irregularities worth 73,415 rupees occurred in Narahenpita Healthy Food Cafeteria in the year 2012.	The Ministry of Agriculture has informed to recover the amount related to the financial irregularity that occurred in Narahenpita Healthy Food Cafeteria in the year 2012. It will be taken further actions accordingly.	Financial loss should be charged.

## 1.7 Non-compliance with laws, rules, regulations and management decisions etc

Reference to laws, rules, regulations	Non-compliance	Comment of the Management	Recommendation
(a) Section 16(2) of the National Audit Act No. 19 of 2018	The performance report to be submitted with the annual financial statements had not been submitted.	It will be taken actions to present the annual performance report along with the accounts in the near future.	Proceedings in accordance with the Act.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka (i) F.R. 104	The actions had not been taken to conduct an investigation and recover the loss from the responsible parties who related with the misplacement of 37,223kg soya beans worth Rs.4,094,596 in Anuradhapura Upuldeniya warehouse in the year 2018.	The related investigations are still being conducted by the CID and the Commission to Investigate Bribery or Corruption in this regard.	An investigation should be conducted and the loss should be recovered from the responsible parties.

- (ii) F.R. 571 Deposits of Rs.78,472,024 received from 30 private suppliers which exceed 02 years as of 31 December of the year under review had not been taken in to income or settled. The amounts received related to the tank project have been invested in fixed deposit accounts. Overdue deposits should be settled promptly.

## 2. Financial review

### 2.1 Financial results

The financial result of the Board for the year under review was a surplus of Rs.16,020,225 and it was a deficit of Rs.3,828,645 correspondingly in last year. Therefore the financial result of the year under review was shown a growth of Rs.19,848,870 as compared to the previous year. The increases in the interest income by Rs.15,267,035 in the year under review compared to the previous year had directly affected the growth of above financial result.

### 2.2 Trend analysis of major revenue and expenditure objects

Compared to the previous year, the Treasury / Ministry Grants, other operating income, interest income and other income had increased by 25, 168, 137 and 4371 percent respectively and employee remuneration expenses, supply and requirement costs and transportation, communication, utilities, and other costs, and fixed asset repair and maintenance expenses had also increased by 12, 124, 163 and 24 percent respectively.

## 3. Operational review

### 3.1 Management inefficiencies

#### Audit Observation

#### Comment of the Management

#### Recommendation

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| <p>(a) Expenditure of Rs.3,370,595 was incurred during the years 2017 and 2018 for removing the soil from the tanks and selling it to highways, which were not the purpose specified in the Sri Lanka National Freedom from Hunger Campaign Board Act No. 15 of 1973 and an income of Rs. 81,134,631 had been obtained from the sale of that. According to the tank project report, even though the board should receive money from the relevant farmers' organizations for the soil provided and use that money along with the provision of government to develop minor tanks to the proper standard under the engineering consultancy of the</p> | <p>Under the powers to fulfill the objectives of the Board, " Subject to Tariffs for the services rendered by the Board shall be fixed and recovery" Deposits have been made by charging fees for the services of our company for granting the relevant licenses from the Bureau of Geology and Mining for the lakes that have not been dredged for years for the development of the Southern Expressway with the technical assistance of the Agriculture Development Department and obtaining pre-clearance work from other government agencies. Although the Ministry of Agriculture had instructed farmers organizations to use</p> | <p>The functions should be performed as per the Act of the Board. The amount in fixed deposits should be utilized for the powers of the Board.</p> |
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Department of Agricultural Development, Rs.77,764,036 had been held in a fixed deposit account without doing so.

this money for tank renovations or other development activities, It was decided to not to spend this deposited money during the discussions held in the Ministry of Agriculture based on the instructions given by the Ministers appointed from time to time since money is allocated from the government and provincial councils for the development of these tanks. At present, due to that deposit, the treasury provision has been reduced and the arrears have to be borne by the board.

- (b) Part of the reconstruction of the Hunger lake in Tanamalvila Farm was done by the Department of Agrarian Development in the year under review and even though the Freedom from Hunger Campaign Board agreed to pay Rs.1,597,201 for the rest of the works and an advance of Rs.500,000 had been paid to the Agrarian Development Department, the remaining works of the tank had not been properly completed and arrangements had not been made to get water for the crops in the farm.
- A meeting is scheduled to be held in the near future with the Commissioner General of Agrarian Development regarding the deficiencies in the construction of Thanamalvila Lake.
- The related works should be completed and cultivation should be done so that the lake can be used.
- (c) In the year under review, 09 projects had net losses out of 13 projects such as seedling nursery, traditional rice selling project and activities in farms and the net loss of those 09 projects was Rs.12,511,507.
- Agreed with observation. It is planned to carry out new projects under public private partnership in the coming year.
- Existing projects should be maintained in a profitable manner.
- (d) The receivable balances amounting to 691,211 rupees from government institutions, private institutions and individuals included in the financial statement notes existed for more than 08 years and action had not been taken to settle them.
- Those debtor balances are the balances of 2011 and 2012. The F.R.104 inspection report has been received and will submit it to the board of directors and proceed accordingly.
- Actions should be made to settle the debtor balance.
- (e) Rs.62,382 accrued expenses for more than 03 years as on 31December of the year under review and those had not been settled.
- Agreed with the observation. It will be settled the money in the near future. Deposits held pending the recovery of debts related to the healthy food project also had among those funds.
- Actions should be made to settle the accrued expenses.

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| (f) | Although it was revealed in the financial statements that the ownership of Thanamalvila and Buttala farms was obtained from the Divisional Secretariat under a 30 years long-term lease basis, the Board had not have the relevant licenses. | Actions will be taken to correct it in the future. | Ownership of land should be taken over. |
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### 3.2 Operational inefficiencies

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>	
<b>(a) Thanamalvila farm</b>			
(i)	Rs.3,950,000 had been allocated for the production of 329 MT of organic fertilizer and for setting up another organic fertilizer unit in the action plan of the year under review while Rs.600,000 was spent on constructing the organic fertilizer processing building in the year 2020 and it was not being used and idle. However none of the activities had been done.	Although the cultivation projects were planned, the projects could not be carried out since the lake was not restored. Production could not be done due to difficulties in finding raw materials for organic fertilizer production project, shortage of raw materials due to high demand for raw materials and high cost of transportation due to high fuel prices. Although it was planned to sell through agricultural inputs outlets, the project did not go as planned due to the high cost of transportation.	All the factors that affect for that such as the existing market, production cost, and availability of raw materials should be taken into consideration in planning the project.
(ii)	Even though Rs.500,000 and Rs.1,000,000 were allocated respectively for the use of the farm to support the national seed production in the action plan of the previous years under review, the work had not been done.	As the reconstruction work of the lake was not completed as planned by the Department of Agrarian Development, the proposed cultivation projects could not be carried out without proper water supply system.	Work should be done to fulfill the tasks of the action plan.
<b>(b) Buttala Farm</b>			
(i)	A private investor had been given permission to manufacture and distribute organic fertilizers using the board's name from 05 April 2021 at Buttala Farm. According to the analysis report about its product samples submitted by the Sustainable Agriculture Research and Development Centre which is a research institute	Producing organic fertilizers with this entrepreneur has been done since its initial stage. The situation mentioned in the query was found in more than 90% marketed organic fertilizer products. The reason for that was it was difficult to obtain the amount of newly prepared nitrogen for organic fertilizers only from the organic	Arrangements should be made to supply high quality fertilizers to the consumers in accordance with the proper standards.

belonging to the Ministry of Agriculture, while it has been informed that they are at a very low level of quality, 166,500 kg of organic fertilizers and potting mixes were sold under the name of the board in the year under review.

materials used for organic fertilizers and due to the failure to provide the facility of using advanced technology to the entrepreneur who produces organic fertilizers for us, the production of organic fertilizers was temporarily stopped. Organic fertilizers were purchased from Colombo Commercial Fertilizer Company, which provided special facilities for organic fertilizers by the Ministry. Hence only the pot mix was purchased from the Buttala entrepreneur.

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| (ii) | With the aim of contributing to meet the demand of seed turmeric, the board planted 2,500 kg of seed turmeric in 2.5 acres of Buttala farm and had spent Rs. 1,345,544 in the year under reviewed and Rs.2,104,383 in the last year as a total of Rs.3,449,927. Although the expected yield of turmeric from the production was 15,167 kg, the actual yield was 1,710 kg, which was 89 per cent less than the expected yield. Action had not been taken to sell that turmeric stock until 24 March 2023. The entire amount spent for that had become an uneconomical expense. | Although a tube well was constructed for the water supply of turmeric cultivation, the lack of water receiving as predicted led to the failure of this cultivation. The 1710 kg yield of turmeric was used for the testing of the productivity of the machines that can be processed turmeric and the quality of the products of the Ministry of Agriculture's program to empower inventors to become successful entrepreneurs. It will be planned to powdered and release the turmeric which was dried in the course of this research in the future. | The project should be made successful by recovering the cost of constructing the well from the contractor who wrongly predicted the amount of available water or by having constructed another well. |
| (c)  | It was observed that the fixed deposit interest income of Rs.26,392,996 has directly contributed to the net profit of Rs.16,020,225 in the year under review and other projects carried out by the board were at an unsatisfactory level of performance.  | Agreed with observation. It will be worked to increase the profit in the coming year.   | Projects should be maintained at a satisfactory level of performance.  |
| (d)  | Production has not been done in Kalankuttia rice flour processing unit during the year under review and 03 machines were idle.  | The machines in Ganorua Food Research Unit have higher quality and specifications than the Kalankuttia rice flouring machine. Moreover, the machines in this research unit are used with the aim of reducing the high production cost.  | Future plans should be made for using the machines in a Kalankuttia rice flour processing plant or for some other purpose.   |



**4. Accountability and good governance**  
**4.1 Tabling of Annual Reports in Parliament**

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
The annual performance reports of 2018, 2019, 2020 and 2021 had not been tabled in Parliament.	By now all the annual reports have been prepared. The 2018, 2019, 2020 annual reports have been handed over to the Ministry of Agriculture for forwarding to the Cabinet. The 2021 annual reports have been sent to the Ministry of Agriculture for monitoring. It will be taken actions to send the 2022 annual report after receiving the final audit report.	The relevant reports should be tabled in Parliament immediately.