

National Livestock Development Board

1. Financial Statements

1.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the National Livestock Development Board had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the National Livestock Development Board as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1.2 Comments on Financial Statements

1.2.1 Non-compliance with Sri Lanka Accounting Standards

A statement of acceptance of responsibility of the financial statements had not been presented along with the financial statements presented for audit in terms of SLAS 3.

1.2.2 Accounting Deficiencies

- (a) Foreign travel expenses of Rs.1,796,450 had been brought to accounts as lectures and seminars without showing in the relevant account.

- (b) Even though a compensation of Rs.60,000 had been claimed in respect of the case heard relating to the Polonnaruwa Farm, no provision had been made therefore.

1.2.3 Accounts Payable

The following observations are made.

- (a) A refundable deposit of Rs.385,450 obtained for the purpose of collection of milk through Agents which had been dormant since the year 2006 had been shown continuously in the accounts as a payable amount without being settled.
- (b) The brokers charges Rs.3,376,038 payable in marketing coconuts through Brokers in the years 2006, 2007 and 2008 had not been settled.
- (c) Balances of Rs.2,106,984 payable to 7 creditors brought forward since the year 2000 had not been settled.
- (d) Salary increments of Rs.16,540 payable to 9 watchers in the Polonnaruwa Farm, brought forward since the year 2005 had not been settled.
- (e) Eventhough the interest free loan of Rs.50,000,000 obtained from the Treasury in the year 1992 had been shown in the accounts for a long time, action had not been taken to settle it even in the year under review.

1.2.4 Accounts Receivable

The following observations are made.

- (a) The value of irrecoverable debtor balances relating to the Polonnaruwa Farm remained outstanding for 6 years amounted to Rs.168,264.
- (b) The Board had failed to recover a sum of Rs.418,511 due from 13 debtors relating to Milk Project since the year 2008.

- (c) Even though a shortage of Rs.49,500 had been occurred by handing over the money to the Head Office from milk bars during the year under review, it had not been recovered even by 31 December 2010.
- (d) By handing over the milk produced by 3 farms during the year under review to the Milk Project, milk had been handed over less by 1977.7 litres valued at Rs.67,679 and it had not been recovered.
- (e) The Board had incurred an expenditure of Rs.2,644,404 on behalf of the Ministry during the year under review but it had not been reimbursed.
- (f) The value of un-settle debtor balances remaining for more than 4 years amounted to Rs.27,121,209. The Chairman informed that a court case had been filed to recover Rs.12 million of it.

1.2.5 Lack of Evidence for Audit

The following items of accounts could not be satisfactorily vouched or accepted in audit due to lack of evidence stated against each item.

| Item | Value | Evidence not made available |
|------------------------------------|------------|---|
| ----- | ----- | ----- |
| | Rs. | |
| Trade debtors | 64,607,665 | Confirmation of balances |
| Deposits | 8,504,240 | - do - |
| Pre-payments | 1,289,611 | - do - |
| Bank money of all farms | 6,088,042 | (i) Confirmation of bank balances (ii) Bank statements |
| Liquid Milk Popularization Project | 541,432 | (i) Approved estimates (ii) Plan (iii) Budget |

| | | |
|-------------------------|-------------|---|
| 8 items of fixed assets | 496,540,715 | (i) Detailed schedules |
| | | (ii) Board of survey reports |
| | | (iii) Updated registers of fixed assets |

1.2.6 Non-compliance of Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with the following Laws, rules, regulations and management decisions were observed in audit.

| Reference to laws, rules, regulations and Management Decisions | Non-compliance |
|--|--|
| ----- | ----- |
| (a) Section 16 (2) (a) and (b) of the Finance Act No. 38 of 1971 | Although the Treasury approval should be obtained before obtaining bank over drafts, overdrafts of Rs.9,264,342 had been obtained at the end of the year under review without such approval. The interest paid in respect of ascertaining overdraft facilities during the year under review amounted to Rs.10,338,708. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 757 (2) | Except farms board of survey reports for the balance sections had not been submitted to the Auditor General even by 06 May 2011. |

- (c) Public Enterprises Circular
No. PED/12 of 02 June 2003
Paragraph 5.2.5
- The updated overall budget of the Board had not been submitted to the Auditor General.
- Paragraph 6.5.1
- The Draft Annual Report had not been submitted to the Auditor General along with the financial statements.
- Paragraph 6.5.3
- Annual reports had not been tabled in Parliament by the Board since 2007.
- Paragraph 7.4.1
- Only one meeting of the Audit and Management Committee had been held in the year under review.
- Paragraph 8.3.8
- A sum of Rs.3,144,990 had been given to external parties as grants by the Board.
- (d) Paragraph 2.4 of the Public
Expenditure Management
Circular No. CSA/P/40 dated
04 January 2006
- Three vehicles belonging to Farms had been released to the Ministry in charge of the subject without approval and incurred an expenditure of Rs.198,600 thereon.
- (e) Paragraph 2 of the Public
Enterprises Circular No. 353
(5) dated 31 August 2004
- Eventhough the monthly charges in hiring vehicles should not exceed Rs.40,000, 4 vehicles had obtained on hire basis and an overpayment of Rs.520,690 had been made during the year under review in excess of the limit contrary to that provision.

- | | |
|--|--|
| <p>(f) Paragraph 3 of the Public Expenditure Management Circular No. CSA/P/40 dated 28 February 2007</p> | <p>Even though the hotel charges in respect of food and lodging should not be incurred by the Board at local travels, hotel charges of Rs.1,890,465 had been borne by the Fund of the Board.</p> |
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2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

According to the financial statements presented, the operation of the Board for the year under review had resulted in a net profit of Rs.176,463,447 as compared with the net profit of Rs.24,561,427 for the preceding year thus, indicating an improvement of financial results by Rs.151,902,020. The increase in income by Rs.209,953,271 had been the main reason for improvement of the financial results.

2.1.2 Transactions of Contentious Nature

The following observations are made.

- (a) Even though a sum of Rs.15,995,170 invested in a company by the Board in the year 1995, dividends had not been declared due to incurring losses by the company. Action has been taken to liquidate this company at present and the valuation fees of that company, salaries of the Chairman of the company and foreign travel expenses totalling Rs.1,291,250 had been incurred by the Board.
- (b) A loan of Rs.102,662,700 had been obtained from the Farmers' Trust Fund in the year 2003 with the condition that the loan would be settled from sale proceeds of the sale of Mahaberiyathenna Farm. As instructions had been

given by the Cabinet of Ministers not to privatise any farm belonging to the Board, the above farm had not been sold, and the loan had also not been settled. Even though the Chairman had informed to audit in the year 2009 that action would be taken to settle this loan after becoming the better financial position action had not been taken to settle that loan even in the year under review.

2.2 Operating Review

2.2.1 Profitability of Farms

The Board had managed 30 and 32 Livestock Breeding and production farms during the preceding year and the year under review respectively and the following net profits / losses were observed.

| | 2010 | 2009 |
|---------------------------------------|-------------|-------------|
| | ----- | ----- |
| Number of farms which earned profit | 17 | 19 |
| Net profit earned Rs. | 421,584,237 | 245,569,716 |
| Number of farms which incurred losses | 15 | 11 |
| Net loss incurred Rs. | 80,861,214 | 79,994,261 |

2.3 Uneconomic Transactions

The following observations are made.

- (a) An expenditure of Rs.220,526 had been incurred in respect of deployment of labourers on household functions outside the activities of the Board.
- (b) An expenditure of Rs.127,286 had been incurred for election purposes.

2.4 Identified Losses

The following observations are made.

- (a) Three milk bars handed over to the Bopaththalawa farm had been closed by June 2010 and the loss incurred by those farms during the period March to June 2010 amounted to Rs.100,587.
- (b) The farms had not taken any action in respect of 296.38 litres of milk valued at Rs.10,377 available by July in the milk bars belonging to the Bopaththalawa Farm which were closed.
- (c) The value of 14 animals valued at Rs.79,380 lived in the Welikanda Farm and killed by various accidents had been written off from books.
- (d) Due to non settlement of loan obtained from the Farmers Trust Fund in the year 2003, the interest payable thereon the year under review amounted to Rs.10,266,270.
- (e) 4036 bottles of goat milk valued at Rs.242,160 produced at the Bopaththalawa farm and supplied to the Head office Milk Project had got spoiled.
- (f) In delivering milk produced by Bopaththalawa farm to the Head office 5722 litres of liquid milk valued at Rs.202,020 had become short and rotted.
- (g) Due to non receipt of money for the market products of the Oyamadawa farm rotted before the expiry date, a loss of Rs.73,344 was incurred.

- (h) The loss incurred in the year under review in 14 milk bars belonging to Oyamaduwa farm set up to sell farm products amounted to Rs.641,476.

2.5 Idle Assets

The following observations are made.

- (a) Two G.1 cylindrical tank with a capacity of 5 Tons installed in the Bopaththalawa farm in the year 1992 to store animal foods had been idle without utilising for any purpose since the year of installation.
- (b) Seven cattle sheds to the extent of 6039 square feet three cattle sheds to the extent of 5940 square feet and nine buildings used for various purposes had not been utilised for a long period at the Polonnaruwa farm.
- (c) Twenty two crumbled houses belonging to the Polonnaruwa farm had existed and no any action whatsoever had been taken with regard to them.
- (d) Number of buildings in the Parasangaswewa farm abandoned without being used and being becoming destroyed since the year 2007 amounted to 11. Any action whatsoever had not been taken in this regard.

2.6 Human Resource Management

The following observations are made.

- (a) Nine instructors had been recruited outside the approved cadre and an allowance of Rs.475,407 had been paid during the year under review.
- (b) Approval of the Department of Management Services and the Salaries and Cadre Commission had not been obtained for these recruitments and the cadre structure.

2.7 Management Inefficiencies

The following observations are made.

- (a) According to the letter dated 06 October 2009 of the Director General of Public Enterprises, the dividend of Rs.10 million to be paid to the Treasury had not been paid.
- (b) As stated in letter dated 27 July 2009 of the Director General of Management Services with reference to " Promotion without a proper authority – Assistant General Manager" such promotions had not been regularised.
- (c) Shortages of cash and goods valued at Rs.900,000 revealed within 2 months in the year 2009 in the Head Office sales centre had not been recovered from the persons responsible.
- (d) Any action whatsoever had not been taken to recover a sum of Rs.30,250 for which receipts had been issued but money was not collected in the Kanthale Maize Project.
- (e) Any action whatsoever had not been taken against the relevant officers who misappropriate a sum of Rs.79,750 collected by selling Maize seed in the month of December 2008.
- (f) Asentainment of the approval of the Cabinet of Ministers to release 4 acres from the Nikaweratiya farm for the Deduruoya Irrigation Project, legally transfer of these lands and the disposal of this assets from the register of fixed assets had not been done.
- (g) Four vehicles belonging to the Board had been released to the Ministry and Minister's staff and incurred a repair expenditure of Rs.624,670.

2.8 Budgetary Control

Significant variance were observed between the budgeted expenditure and actual expenditure thus indicating that the budget had not been made use of as an effective instrument of management control.

3. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the attention of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Fixed Assets Control
- (b) Write off of Losses and Damages
- (c) Idle Assets
- (d) Personnel Management
- (e) Financial Management
- (f) Stock Control
- (g) Balance to be Settled