

National Livestock Development Board -2013

The audit of financial statements of the National Livestock Development Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 23 of the State Agricultural Corporations Act, No. 11 of 1972. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act appear in this report.

1:2 Management's Responsibility for Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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 Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1:4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial statements

2:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the National Livestock Development Board as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2:2 Comments on Financial Statements

2:2:1 Accounting Deficiencies

The following matters were observed.

- (a) The stock shortage amounting to Rs.12,379,621 identified in the preceding year had been brought to account under the trading stocks instead of taking action for reconciliation and settlement.
- (b) The over-adjustment of depreciation for the preceding year amounting to Rs.16,481,659 had been shown as a deduction from the Accumulated Fund for the year under review instead of being adjusted with retrospective effect.

2:2:2 Unreconciled Control Accounts

According to the financial statements as at the end of the year under review, the payments for the year under review on 12 leased motor vehicles totaled Rs.11,940,280 whereas according to the confirmations the payments totaled Rs.12,249,492 and as such a difference of Rs.309,212 was observed. Action had not been taken to identify and settle the difference.

2:3 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.2,092,750 recoverable from the year 2009 from the Kantale Branch of the Bank of Ceylon in connection with the Maize Project and a sum of Rs.207,848 recoverable from the farmers for the supply of seed maize on credit basis to the farmers had not been recovered. Even though legal action had been taken for the recovery of a sum of Rs.11,194,220 receivable from a private institution for the failure to return the maize issued for drying, it had not been able to recover that amount even by 30 September 2014.
- (b) Even though the sum of Rs.1,135,000 given to the people of the hill country area as flood relief had been shown in the financial statements as receivable from the Rosita Farm, according to the minutes of the Board of Directors it was observed that the amount was receivable from the Ministry of Livestock and Rural Community Development.

- (c) The Board had not taken action for the recovery of the debtors balances older than 04 years amounting to Rs.10,128,117 and Rs.3,016,255 of the Head Office and 17 Farms respectively.
- (d) Even though a sum of Rs.6,261,979 receivable by the Head Office and 02 Farms from the Mahaweli Livestock Development Company functioning under the Ministry of Livestock and Rural Community Development had been outstanding for more than 04 years, chicks valued at Rs.3,188,202 had been supplied to that institution on credit basis during the year under review.
- (e) The staff debtors balances older than 05 years of 08 Farms that remained without being recovered amounted to Rs.319,517 and the Special and Festival advances older than one year totaled Rs.203,825.
- (f) Even though a sum of Rs.53,363 had been shown under the creditors of the Milk Project as a cash shortage, the reason for that or the parties responsible for that had not been identified.
- (g) According to the confirmations obtained from the Bank, the short term liabilities, long term liabilities and the assets had been overstated by sums of Rs.29,574, Rs.7,355,663 and Rs.7,385,237 respectively in the accounting of assets required under the leasing system. The reasons for the differences had not been identified.

2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with the following laws, rules, regulations, etc. were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
-----	-----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 371(2)	Even though the advances obtained should be settled immediately after the completion of the relevant purpose the advances amounting to Rs.2,398,229 granted to the Officers of the Board and different institutions had not been settled up to 24 December 2014.
(b) Public Enterprises Circular No. PED/58(2) of 15 September 2011.	Rent allowance amounting to Rs.330,000 had been paid from January to November 2013 to the Chairman without the approval of the Treasury.
(c) Government Procurement Guidelines of 25 January 2006.	According to the value of the estimate for the construction of the New Sales Outlet of the Nikaweratiya Farm, the

Guideline 2.14

approval of Minor Procurement Committee of the Ministry should be obtained for that. Nevertheless, construction work had been split into parts and the construction had been done on the recommendations of the Regional Minor Procurement Committee.

2:5 Transactions not supported by Adequate Authority

Eight Farms had incurred expenditure on various activities exceeding the estimates amounting to Rs.140,912,713 by a sum of Rs.73,240,622 without obtaining the approval of the Head Office.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the operating results of the Board for the year under review amounted to a surplus of Rs.2,096,836 as compared with the corresponding surplus of Rs.26,294,245 for the preceding year thus indicating a deterioration of Rs.24,197,409 in the financial results. The increase of administrative expenditure by a sum of Rs.42,452,480 had been the main reason for the deterioration.

3:2 Legal Action initiated by the Board

The Board had filed two cases in Courts in the years 2011 and 2012 against two institutions claiming compensation amounting to Rs.14,040,395 for defaulting payments in accordance with the agreements. Two external persons had filed two appeals against judgements while 10 employees had filed 10 cases against the termination of employment.

4. Operating Review

4:1 Performance

The following observations are made.

- (a) The Head Office had maintained 116 Milk Sale Stalls for the sale of milk under the Milk Distribution Project and the number of stalls in operation by the end of the year under review had been only 50 stalls. Out of those, 16 stalls had reported losses amounting to Rs.1,775,671 while 34 stalls had reported profits amounting to Rs.17,685,720.
- (b) Fifteen Farms owned by the Board had incurred net losses amounting to Rs.160,334,263 in the year under review and 12 Farms out of those had been incurring losses from the year 2008. Nevertheless, the Board had failed to convert the Farms to profit making status.

- (c) Out of the total of 111 Franchise Stalls of the Board only 17 stalls are in the operating status. The net loss of the Franchise Stalls Project for the year under review amounted to Rs.1,049,282.

4:2 Management Inefficiencies

The following observations are made.

- (a) The Board uses 2,887.7 hectares and 9,728.6 hectares belonging to the Land Reform Commission and the Department of Land Commissioner respectively without effecting the legal transfer. Those had been shown as assets of the Board in the financial statements from the year 2011.
- (b) The Board had failed to prepare a repayment plan for the repayment of the loan of Rs.1,682,727,540 (US\$ 12,944,058) obtained for the Wellard Project. According to the letter No. DE/AUS/06 dated 06 November 2012 of the Additional Director General of the Department of External Resources the repayment of that loan should commence prior to or on 08 March 2013. Nevertheless, no repayment, whatsoever had been made even up to the end of the year under review.

4:3 Idle Assets

Three Bank Current Accounts of the Kantale Maize Project not in operation had been dormant since the year 2010 and the balances as at the end of the year under review amounted to Rs.885,470.

4:4 Identified Losses

Even though the information on the dates of births and deaths of the animals in 30 Farms was called from the Chairman in two instances, the information relating to 25 Farms only had been furnished. One thousand and seventy one heads of cattle and buffaloes of those 25 Farms valued at Rs.12,675,820 had died.

4:5 Transactions of Contentious Nature

The Cabinet of Ministers had taken a decision on 28 June 2007 to hand over 1,000 acres from the sugar cane cultivated lands of the Kantale Sugar Company temporarily to the Board for the cultivation of maize as a Pilot Project, to create a Revolving Fund for that purpose and for the refund of the balance money in the Revolving Fund to the Treasury when a suitable entrepreneur is selected for the cultivation of sugar cane on the land. A sum of Rs.37.5 million for the Revolving Fund had been given to the Board under the Negenahira Navodaya. Even though the land had been handed back to the Company on 01 September 2011 due to the failure of the Project, the sum of Rs.17,549,341 in the Revolving Fund as at that date had been retained with the Board even up to 31 December 2013 without being refunded to the Treasury.

4:6 Deficiencies in Contract Administration

The Sales Outlet of the Nikaweratiya Farm had been constructed at a cost of Rs.9,078,084 and the following deficiencies were observed in that connection.

- (a) The decisions of the Procurement Committee relating to the contract had not been furnished to audit and an agreement on the contract had not been signed with the contractor in terms of the Guideline 8.9 of the Procurement Guidelines of 25 January 2006. The payments in this connection had not been certified by an Engineer.
- (b) Even though the value of the contract amounted to Rs.6,064,321, the approval of the Board of Directors had not been obtained for additional work amounting to Rs.3,013,763.
- (c) Even though a mobilization advance not exceeding 20 per cent of the contracted amount can be paid on an advance guarantee in terms of Guideline 5.4.4, an advance exceeding that amounting to Rs.6,319,900 or 87 per cent had been paid.

4:7 Personnel Administration

The following observations are made.

- (a) The approved cadre of the Board had been 602 and the actual cadre had been 486. Vacancies in the Senior and the Secondary Levels Posts relating to the operating activities had been 20 and 52 respectively while 44 posts of the Tertiary Level had also been vacant.
- (b) An officer over the age of 60 years who had not fulfilled the qualifications for the post of Assistant Manager (Internal Auditor) in accordance with the Scheme of Recruitment had been deployed as Manager (Internal Auditor) while 02 officers over the age of 60 years had been deployed as consultants of the Board. Even though a sum of Rs.760,750 had been paid to them in the year under review the approval of the Cabinet of Ministers had not been obtained in that connection.
- (c) According to the recommendation of the Committee for the Settlement of Problems of the Board appointed by the Board without the approval of the Department of Management Services, a new salary revision had been made with effect from 01 November 2011 for 36 officers.

5. Accountability and Good Governance

5:1 Action Plan

The following observations are made.

- (a) Significant variances were observed between the targets of 76 activities of 16 Farms shown in the Annual Action Plan furnished to audit and the related targets shown in

the Annual Progress Review Report. As such the annual performance could not be examined with the Action Plan and according to the information examined the performance of 54 activities of 14 Farms had been less than 50 per cent of the targets.

- (b) The targets shown in the Progress Review Report in relation to 22 activities of 14 Farms included in the Action Plan furnished to audit had been understated while even those targets had not been achieved in the year under review.

5:2 Procurement Plan

The approval of the Board of Directors had not been obtained for the Procurement Plan prepared for the year 2013 while action in accordance with the plan had not been taken.

5:3 Budgetary Control

The variance between budgeted data and the actual data had ranged between 8 per cent to 561 per cent. Expenditure amounting to Rs.66,394,469 had been incurred from the Head Office and Project for 34 Objects for which provision had not been made in the budget. As such the budget had not been made use of as an effective instrument of control.

5:4 Unsettled Audit Paragraphs

The following observations are made.

- (a) Even though 150 acres of the Ridiyagama Farm had been taken over without authority in the year 2001 by 98 persons for cultivation purposes, the Board had failed to evict them from the Farm.
- (b) The interest free loan of Rs.50,000,000 obtained from the General Treasury in the year 1992 had not been settled even in the year under review.

6. Systems and Controls

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

- (a) Budgetary Control
- (b) Fixed Assets
- (c) Contract Administration
- (d) Debtors and Creditors Control
- (e) Operating Management
- (f) Financial Management
- (g) Personnel Administration