Livestock Development Board - 2014

The audit of financial statements of the National Livestock Development Board for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might had been found necessary in respect of recorded or unrecorded item, and the elements making up the statement of financial position, statement of comprehensive income, the statement of changes in equity and cash flow statement.

2. Financial statements

2.1 Disclaimer Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I had not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Consolidated Financial Statements

In the presentation of the financial statements of the Board, the consolidated financial statements prepared by consolidating the financial statements of the subsidiary of which the total equity is owned by the Board should be presented to audit. Nevertheless, the financial statements prepared only for the Board had been presented to audit.

2.2.2 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 01

The following observations are made.

(i) Reasons for the maintenance of capital reserves amounting to Rs.130,696,928 and revenue reserves amounting to Rs.44,529,422 included in the financial statements of the Board and their nature had not been disclosed.

(ii) Instead of showing the income of Rs.265,368,361 under the sub projects such as the Milk Project, Delite Project, authorized sales outlets, main stall, hostels, circuit bungalows and training centres operated by the Board and the expenditure of Rs.114,226,085 thereof separately, only the net result had been shown as income.

(b) Sri Lanka Accounting Standard 07

Cash flows generated from operations, financial and investment activities had not been properly classified and shown in the cash flow statement.

(c) Sri Lanka Accounting Standard 08

Even though the errors occurred in 03 prior years identified in the year under review should be adjusted retrospectively in the financial statements and taken to the opening balance of the year under review, debit balances of Rs. 13,231,640 and credit balances of Rs. 31,291,718 had been adjusted by the statement of changes in equity.

(d) Sri Lanka Accounting Standard 12

Action had not been taken by the Board to identify whether deferred income tax assets or liabilities exist and to account them.

(e) Sri Lanka Accounting Standard 16

The following observations are made.

(i) Even though an asset should be depreciated from the time of its useful life and throughout its useful life on a methodical basis, contrary to it, assets acquired in the years 2012 and 2013 valued at Rs.635,064,057 and Rs.80,468,192 respectively had been depreciated for the whole year. As such, depreciation and accumulated depreciation for the year had been overstated.

(ii) In the revaluation of a certain group of assets, all assets of that group should be revalued. Nevertheless, in the revaluation of motor vehicles by the Board, 226 vehicles costing Rs. 60,960,579 had been left out and as such, the effects to the financial statements resulting from that, could not be revealed in audit.

(f) Sri Lanka Accounting Standard 17

Matters such as the extent of acres and value of land and period of lease had not been disclosed in the financial statements in respect of an income of Rs.720,259 received in the year under review in granting lands on operating lease basis to external parties.

(g) Sri Lanka Accounting Standard 40

A sum of Rs.1,720,763 had been shown as lease income under other income in the financial statements. As it had been an income received on the lease of 520 acres of lands and buildings on lease basis, it should have been brought to account under investment property and disclosed by notes. However, it had not been so done.

(h) Sri Lanka Accounting Standard 41

Physical and financial information such as depreciations, Government grants received, additions and disposals of assets relevant to the period which should be disclosed in respect of biological assets had not been disclosed in the financial statements. Even though cattle purchased in the years 2012 and 2013 as imported biological assets valued at Rs. 207,898,980 and Rs. 434,235,312 respectively should be revalued and adjusted at the fair value in the accounts at the end of the year, action had not been taken to make adjustments in respect of depreciation even up to the year under review accordingly.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) Six motor vehicles received from external parties in the preceding years and not brought to account had been revalued for a sum of Rs.3,750,000 in the year under review. Instead of accounting this asset as a grant, it had been shown in the comprehensive income statement as a revaluation profit.

(b) The value of a motor cycle purchased for a sum of Rs.171,900 in the year 2012 had been brought to account as a revenue expenditure and it had been revalued in the year under review for Rs. 80,000 and that total value had been brought to account as a revaluation profit.

(c) The value of 05 motor cycles purchased for a sum of Rs.641,900 in the year 2011 had been brought to account under advances instead of accounting as an asset. Those motor vehicles had been revalued at Rs.470,000 in the year under review and that value had been erroneously shown as a profit in the comprehensive income statement.

(d) An expenditure of Rs.1,644,023 incurred for the Minister and the Line Ministry had been shown as expenditure of the Board instead of showing as receivables in the accounts.

(e) Action had not been taken to settle the advances of Rs.435,680 received from sale of calves of the Dayagama Farm in the year 2009 and advances of Rs.3,113,782 received from sale of chicks of the Marawila Farm at the time of sale.

(f) Even though the balance of the stock of coconuts of the farm as at 31 December of the year under review amounted to Rs.6,012,680 according to the physical stock verification report, the trading and other stock balances had been overstated by Rs.465,390 as a result of showing it in the balance sheet as Rs.6,478,070.

(g) According to the Register of Fixed Assets, action had not been taken to examine whether 1,077 items of estate equipment, 1,156 items of office equipment and 1,170 forms valued at Rs.131,673,719, depreciated fully but not eliminated from the register could be used and to revalue and account those assets.

2.2.4 Unreconciled Control Accounts

Current Accounts, the Money Exchange Account and the Control Accounts included in the accounting system followed for the posting of transactions between the Head Office of the Board, farms and projects belonging to it, had not been reconciled with each other and adjusted. As such, the difference of Rs. 23,991,530 between the total of 369 debit balances amounting to Rs. 1,206,961,029 and the total of 247 credit balances amounting to Rs.1,230,952,559 at the end of the year had been shown under short term debtors. The following matters were further observed in the examination carried out in that connection.

(a) Even though the current account balances of the Head Office and the inter-farms accounts of each farm should be zero after posting the transactions of inter-farms, a debit balance of Rs.370,676,659 and a credit balance of Rs.24,622,189 existed in the inter-farms current accounts at the Head Office and a debit balance of Rs.2,584,523 and a credit balance of Rs.342,654,632 existed in the current accounts of inter-farms books as at the end of the year under review.

(b) Even though the transactions between the Head Office and farms should be reconciled as at the end of the year, a debit balance of Rs.715,770,651 in the current accounts of the Head Office and a credit balance of Rs.716,534,893 in the current accounts of the farm had existed as at 31 December of the year under review.

(c) A debit balance of Rs.11,199,993 and a credit balance of Rs.1,530 had existed in the Money Transaction Accounts as at 31 December of the year under review due to failure in correct posting of money transaction between projects and reconciliation of these accounts.

(d) Transaction of money between the Head Office and the projects is carried out thorough Money Transaction Accounts and the balances of those accounts should be reconciled as at 31 December. Nevertheless, the following unreconciled balances were revealed at audit test check.

	Money Transaction Account in the name of the relevant Projects in the Books of the Head Office	**Money Transaction Account in the name of the Head Office in the Books of the relevant Project**
	Rs.	**Rs.**
Sales Outlet	652,659(Debit)	581,508 (Credit)
Franchise Project	2,707,775 (Credit)	7,172,875 (Debit)
Maize, Delite, Milk Projects	27,313,344 (Credit)	No balance

(e) Control Accounts are maintained for posting non cash transactions between projects. Even though the net balance relating to the 7 projects had been Rs.8,727,668 (credit) according to the books of the Head Office, it was 4 credit balances totalling Rs.17,666,134 according to the Project Accounts. Four debit balances of Rs.29,019,192 and 7 credit balances of Rs.13,085,534 had further existed between inter project accounts due to failure in taking action to set off transactions entered into between projects against each other.

2.2.5 Lack of Evidence for Audit

The evidence indicated against the following items of accounts was not made available to audit and as such, they could not be satisfactorily vouched or accepted in audit.

	Item of Account	**Value Rs.**	**Evidence not made available**
(a)	Purchase and repairs of fixed assets	20,565,165	Relevant files
(b)	Debtors		
	(i) Mahaweli Livestock Development Company	2,750,000	Written evidence relating to payments and confirmation of balances
	(ii) From Line Ministry - Flood relief	1,135,000	-do-
	(iii) Payments for Plantation Housing Trust Fund	2,957,521	-do-
	(iv) From Line Ministry - Providing chicks	5,303,391	-do-
	(v) Balance receivable from the Bank of Ceylon Kanthale Branch – Balance existing from the year 2009	2,092,750	Agreements entered into with the Bank.

(c) Ledger, books and source documents whatsoever relating to 32 farms stated by consolidating with the accounts of the Board were not made available to audit.

(d) A sum of Rs.80,604,253 brought to account as capital expenditure under the Menik Palama Farm by spending in the year 2013 by the Wellard Milk Cow Project implemented on foreign bank loans, had been written off in the year under review against the accumulated income as a revenue expenditure. No reasons for writing off this expenditure as revenue expenditure and evidence whatsoever for the confirmation of that expenditure were not made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The Board had failed to recover a sum of Rs.9,450,181 older than 05 years due from the Mahaweli Livestock Development Company for providing chicks, a sum of Rs.5,303,391 older than 04 years due from the Line Ministry and insurance claim relating to 69 imported and deceased milk cows in the year 2013 amounting to Rs.18,704,920 due from the insurance company .

(b) Even though a loan balance amounting to Rs.3,237,187 recoverable from an institution and a project functioning under the Line Ministry had lapsed for over a period of 4 years, the Board had failed to recover that balance.

(c) A proper methodology had not been implemented to recover a balance of Rs.1,037,889 older than 04 years included in the staff debtors balances and action had not been taken to identify and settle the balances of unclaimed salaries and commission amounting to Rs.260,782 and Rs.182,472 respectively older than 01 year existed in the creditors balances.

(d) Action had not been taken to reveal the reasons for the existence of the unsettled Employees' Provident Fund Surcharges amounting to Rs.103,833 older than 5 years in 2 farms and to settle it.

(e) Despite having a loan balance of Rs.364,554 older than 2 years due to the Rosetta Farm from the Ceylon Workers' Congress, the farm products valued at Rs.413,929 had been provided on credit basis in the year under review.

(f) An interest free loan amounting to Rs.50,000,000 obtained from the General Treasury in the year 1992 had not been settled up to 31 August 2015 and no future arrangement had been made to settle that loan.

(g) Even though an interest totalling Rs.52,956,140 for the years 2012, 2013 and 2014 had been shown in the financial statements as payable to the General Treasury for the loan of Rs.1,600,799,758, only a sum of Rs.12,000,000 had been repaid in the year under review. The Department of External Resources had informed that the repayment of the loan should commence on or before 08 March 2013. However, action had not been taken accordingly and the Board had failed to prepare even a future loan repayment plan.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with the following laws, rules, regulations and management decisions were observed.

	Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
	Financial Regulations 102(1) and 103	Action had not been taken in terms of Financial Regulation referred in respect of shortages of stock amounting to Rs.10,239,389 identified in the year 2012 relating to the Milk Project.
(b)	Section 47 of the Employees' Provident Fund Act, No.15 of 1958	Contribution had been under remitted by Rs.633,571 due to applying only the basic salary instead of total earnings of the employees in computing contributions to the Employees' Provident Fund of 23 permanent employees in the Horakele Farm.
(c)	Paragraphs (i) and (iv) of Public Administration Circular No.9/2007(1) D of 24 August 2007.	An allowance of Rs.106,450 had been paid at the rate Rs.53,225 per month by recruiting a person exceeding the age of 60 years as a consultant on contract basis in the year under review without an approval of the Cabinet of Ministers.
(d)	Public Enterprises Circular No. PED/58(2) of 15 September 2011.	Housing rent allowance totalling Rs.390,000 at the rate of Rs.30,000 per month had been paid from December 2013 to December 2014 to the Chairman without the approval of the Treasury.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operating results of the Board for the year under review had been a surplus of Rs.60,309,530 as against the deficit of Rs.86,084,563 for the preceding year thus indicating an improvement of Rs.146,394,093 in the financial result as compared with the preceding year. Even though administrative expenditure, financial expenditure and other expenditure had increased by Rs.38,600,252, Rs.13,430,699 and Rs.11,851,114 respectively and other income had decreased by Rs.24,637,326, the increase of gross income and Government grants by Rs.204,560,599 and Rs.29,710,365 respectively had mainly attributed to the improvement of the financial result.

Further, a sum of Rs.80,604,253 brought to account as capital expenditure of the preceding year had been adjusted to the surplus of Rs.2,096,836 presented by accounts of the preceding year as a revenue expenditure in the year under review and the profit of the preceding year had been revised. As such, the deficit had been comparatively shown as a sum of Rs.86,084,563.

3.2 Legal Action instituted against or by the Board

The following observations are made.

(a) The Board had filed two cases in Courts in the years 2011 and 2012 against three institutions claiming compensation amounting to Rs.14,360,075 for defaulting payments in terms of sales agreements. Ten employees of the Board had filed 10 cases against the Board during the period from 2001 to 2014 against the suspension of service.

(b) Even though legal action had been taken to recover a sum of Rs.11,194,220 recoverable due to failure in paying money for maize provided to a private firm for sale, that amount could not be recovered even by 30 August 2015.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Performance reports had not been prepared by the Board for 4 projects existing in the Head Office and the Board.

(b) Seventeen out of 32 farms maintained by the Board had sustained a net loss amounting to Rs.152,387,111 in the year under review and 07 farms of them had been incurring losses since the year 2008. Nevertheless, the Board had failed to convert the farms to profit making status.

(c) Out of 69 sales outlets which were maintained by the Head Office for sale of milk under the Milk project, 15 sales outlets which sustained a loss totalling Rs.635,475 and one sale outlet which had earned a profit of Rs.12,600 during the year had been closed in the year under review. Moreover, 10 out of 53 sales outlets which were in operation as at 31 December of the year under review had sustained a loss of Rs.1,196,478 and 43 outlets had earned a profit of Rs.17,043,541 as well. Further, out of the total of 111 authorized sales outlets belonging to the Board, only 15 sales outlets were in operation and a loss of Rs.399,287 had been sustained from those 15 sales outlets in the year under review.

4.2 Management Inefficiencies

The following observations are made.

(a) Even though the total loan balance recoverable from brokers for sale of coconuts amounted to Rs. 12,893,012, legal action had been taken only to recover a sum of Rs. 5,821,542 and adequate action had not been taken to recover debtors balance of Rs.4,555,949 elapsed for over a period of 05 years.

(b) A sum of Rs.251,450 had been paid as surcharges in the year under review by the Board due to delay in the payment of gratuity.

(c) No rent whatsoever had been recovered from the employees residing in the houses of the farm and it was revealed in audit test checks that as there is no specific methodology to recover charges for consumption of electricity and water, charges were recovered from some residents and not recovered from some other residents.

(d) Lands with an extent of 187 acres and 24 perches in 04 farms had been encroached by external parties out of which 151 acres alone had been encroached in the years 2013 and 2014. Necessary steps had not been taken by the Management to reacquire those lands to the Board even up to 30 November 2015.

(e) Even though 04 motor vehicles revalued at Rs.3,500,000 had been used from 10 years, those motor vehicles had been eliminated only from the final accounts of the year under review without taking action to transfer their ownership even up to the year under review.

(f) The Board had not taken action to evict the encroachers of 70 houses located in the farms belonging to the Board.

(g) Even though it had been decided to vest all resources, assets and the management of shares of the Mahaweli Livestock Enterprises Ltd. in the Board in accordance with the Decision No. අමප/15/0940/631/018-1 of 16 June 2015 of the Cabinet of Ministers, disclosures had not been made in the financial statements thereon.

(h) Action had not been taken to vest the legal ownership of lands with an extent of 10,542.64 hectares, the control right of which belongs to the Board.

4.3 Transactions of Contentious Nature

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A sum of Rs.37.55 million had been granted to the Board on 28 June 2007 under the re-awakening of the East programme to create a Revolving Fund for a Maize Project, on a land in Kanthale with an extent of 1,000 acres where sugarcane was cultivated. The balance of Rs.17,549,342 remained in the Revolving Fund which existed under the Maize Project at the time of vesting the land in the Sugar Company on 11 September 2011 due to the failure of the Project, should be refunded to the General Treasury in terms of comments of Central Bank and the Decision of the Cabinet of Ministers on 20 June 2007. Without doing so, only a sum of Rs. 13,295,637 of that had been deposited in fixed deposits as at December 31 of the year under review.

4.4 Idle and Underutilized Assets

The following observations are made.

(a) Five hundred and fifty performance reports costing Rs. 401,500 relating to the year 2012 and printed in the year 2013 had remained in the stores of the Welisara Farm.

(b) A generator of Perkins brand with a capacity of 50- 60 Hz belonging to the Sri Lanka Poultry Development Company (Pvt.) Ltd., had been brought to the Welisara Farm by spending a transport expense of Rs. 25,000 and it had not been made use of even up to 23 April 2015, the date of audit. The reason for transporting this generator to the farm had not been revealed in audit.

(c) It was observed in audit that there were 145 houses suitable for occupancy but no one has occupied during a period between 6 months to 15 years and 110 houses not suitable for occupancy.

(d) A lorry revalued at Rs. 800,000 in the year 2014 belonging to the Horakele Farm since the year 2005 had remained idle from February 2013 to 30 August 2015.

4.5 Identified Losses

A loan amounting to Rs.102,662,750 had been obtained from the Framers' Trust Fund in the year 2003 by the Board and the total amount payable as at the end of the year under review including the total interest of Rs.87,757,178 amounted to Rs.181,369,878 due to failure in taking action to settle it for a period of 11 years.

4.6 Staff Administration

The following observations are made.

(a) Twenty two Management Posts of the Board had been vacant as at 31 December of the year under review out of which 13 posts, had been Farm Managers. Further, an excess of 80 Management Assistants and unskilled employees had existed.

(b) Despite two officers in the posts of Assistant Manager (Finance) were in service according to the approved Scheme of Recruitment, an Accountant had been recruited on 17 November 2014 for a period of 03 months on contract basis on the approval of the Chairman and the approval of the Board of Directors and the Department of Management Services had not been obtained thereon. An allowance of Rs.35,000 had been paid per month to this officer.

(c) Approval had been granted at the 458th meeting of the Board of Directors for the recruitment of an officer for a post of cashier in terms of Public Administration Circular No.25/2014 of 12 November 2014. Nevertheless, such a post had not been included in the approved cadre.

(d) An officer had been recruited on 01 April 2014 on contract basis for a post of circuit bungalow consultant which was not included in the Scheme of Recruitment and allowances totalling Rs.200,000 had been paid for 05 months at Rs.40,000 per month.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements should have been presented to the Auditor General within 60 days from the close of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements for the year under review had been presented to the Auditor General only on 04 November 2015.

5.2 Corporate Plan

The Corporate Plan prepared in terms of Sections 5.1.1 and 5.1.3 of the Public Enterprises Circular No. PED 12 of 02 June 2003 and Paragraph 5 of the Public Finance Circular No.01/2014 of 11 February 2014 should be presented to the Department of Public Enterprises with the approval of the Board of Directors and the Secretary to the Ministry concerned with a copy to the Auditor General 15 days before the commencement of the financial year. Nevertheless, it had not been so done.

5.3 Action Plan

The following observations are made.

(a) Even though an Action Plan should have been prepared including the commercial activities expected to be performed in the ensuing financial year based on the Corporate Plan in terms of paragraph 5(2) of the Public Finance Circular No.01/2014 of 11 February 2014, the Action Plan for the year under review had been presented by the Board only in respect of 32 farms. Nevertheless, an overall Action Plan including the Projects and the Human Resource Development Plan of the Board had not been prepared.

(b) The physical progress of 61 activities relating to 06 projects of 27 farms shown in the annual Action Plan, was at a zero level, whereas the physical progress of 40 activities relating to 19 farms indicated a value less than 50 per cent. Targets relating to 15 activities in connection with 12 farms had been included in the Performance Report by understating them to those of the Action Plan and even those targets had not been completed. Further, as the progress of 293 activities relating to 31 farms had not been included in the Annual Performance Report, it was not possible to verify whether those activities had been performed in the year under review.

5.4 Budgetary Control

The percentage of variance between the budgeted data and the actual data had ranged between 8 per cent and 725 per cent. Expenditure amounting to Rs.36,850,094 had been incurred by the Head Office and Project for 24 Objects for which provision had not been made in the budget. As such, it was observed in audit that the budget had not been made use of as an effective instrument of management control.

5.5 Unresolved Audit Paragraphs

The following observations are made.

(a) One hundred and fifty acres of the Ridiyagama Farm had been encroached for unauthorized cultivations by 98 persons in the year 2001 while the Board had failed to evacuate those persons from the farm.

(b) Even though a sum of Rs.53,363 had been shown as a shortage of cash under the debtors of the Milk Project, the reasons thereof had not been revealed.

(c) Even though a sum of Rs.1,135,000 granted as flood relief had been shown in Ledger Accounts as a debtor balance recoverable from the Rosetta Farm, that amount should be recovered from the Ministry of Livestock and Rural Community Development. Nevertheless, action had not been taken to recover the said amount even during the year 2014.

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) Control of Fixed Assets
(b) Operating Management
(c) Financial Management
(d) Budgetary Control
(e) Personnel Administration