

Mahaweli Livestock Enterprises Limited – 2016/2017

The audit of the Activities of the Mahaweli Livestock Enterprises Limited for the period ended from 01 April 2016 to 31 March 2018 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 .Financial Statements have not been presented for the years 2016/2017 and 2017/2018.My observations on the performance of the Company in the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the constitution of the Democratic Socialist Republic of Sri Lanka appears in this report.

1.2 Board’s Responsibility for the Financial Statements

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

2. Financial Statements

2.1 Preparation of Financial Statements

The financial statements and draft annual reports 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, although the financial statements and draft annual report for the years ended 2016/2017 and 2017/2018 had not been submitted to the Auditor General even by 30 October 2018.

2.2 The existence of assets and liabilities

Details of assets, liabilities, income and expense stated in the Financial Statements as at 31 March 2015 and as at 31 March 2016 prepared by the Company are as follows,

	31 March 2016	31 March 2015
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	Amount	Amount
	Rs. Million	Rs. Million
Non Current Assets	20.07	24.02
Current Assets	116.71	101.06
Equity	(48.42)	(37.69)
Non Current Liabilities	28.15	34.80
Current Liabilities	157.05	127.96
Income	133.70	165.56
Expenditure	147.03	150.32
Surplus/(Deficit)	(13.33)	15.24

2.3 Non Compliance with Laws, Rules, Regulations and Management Decisions

The following non compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non Compliances
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(a) Financial regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 110	A register of losses and damages was not maintained.
(ii) Financial Regulation 104(3) and 104(4)	Preliminary and full report were not prepared and submitted to the Auditor General up to 22 October 2018 regarding the motorbike and van accident on 21 January 2016 and 02 July 2018.
(iii) Financial Regulation 1645(b),(c) and 1646	The daily running charts and monthly summary reports should be presented to audit it had not been presented like that.
(iv) Financial Regulation 1647(3) and Financial Regulation volume II schedule vi	A vehicle register had not been maintained.
(b) Paragraph 2.11 of Public Administration Circular No.41/90 dated 10 October 1990	The fuel consumption of the vehicles should be tested for every six month but the company did not do so.
(c) Treasury Circular No.842 dated 19 December 1978	Fixed assets register had not been prepared in accordance with the provisions of the circular.

3. Operating Review

3.1 Performance

3.1.1 Planning

The corporate plan had not been prepared in terms of section 5.1 of the Public Finance Circular No.01/2014 dated 17 February 2014. Also, the Action Plan had not been prepared with the expected commercial activities to be carried out in the coming financial year in accordance with section 5.2 of the circular and the approval of the Board of Directors had not been obtained for the Action Plan submitted to audit.

3.1.2 Activation and review

The following observations are made

- (a) The following functions should be fulfilled by the company as per the company's Articles of Association had not been fulfilled.
 - (i) Setting up the necessary background for poultry food production, purchase of materials for poultry food production, sales and production of poultry food.
 - (ii) Sale, reproduction, import, export, processing and settlement of live and inanimate stock of cattle.
 - (iii) Sale, import, export and processing of butter, cheese and ice cream.
 - (iv) Cereal production and cereals, fruits, flour wholesale and retail trade.
- (b) The company has prepared performance reports for the year 2017 only on the physical progress of livestock, but did not have a performance report showing the overall physical and financial status of the entire organization, including the quality of agro, other crops and construction in the company's own farm.

4. Operating Review

4.1 Management Activities

Economic service charge of 0.5 per cent should be remitted to the on Inland Revenue Department before 20 April 2017 on the turnover for the year 2016/2017 by the Institution although economic service charge had not been remitted for the reported turnover of Rs.172,941,952 of the company for that year even as at 25 October 2018.

4.2 Operating Activities

The following observations are made

- (a) According to the audit sample test was done from January to February 2018, the feeding schedules for a range of 1,993 to 4,934 broiler chicken in one category out of the 7 categories, It was observed that the actual weight of an animal related to their feeding days weight less than the range from 65 to 307 grams than the standard weight. The reason for this was a lack of proper standards for poultry foods. The reduction in the weight of the animal due to the lack of poultry foods was reason for decrease of the company income.
- (b) The sale of broiler chicks is the main source of income of the company, It does not follow a proper procedure for sale of such animals, the market in which it exists is uncertain and does not exercise proper policy from January 2016 to September 2018, the average cost of Rs.46 was not covered in the most cases due to the high fluctuation in the market selling price between Rs.30 and Rs.150.

4.3 Idle or underutilized assets

Machine installed in the poultry food production yard at Hurigasweva which was produced about 3 tons of food in daily up to the year 2015 had, idle and not used in production from the year 2015 up to the audited date of 25 October 2018

4.4 Staff Administration

The following observations are made

- (a) Thirty three officers of the company's office were not provided with the written assignments until the audited date of 25 October 2018.
- (b) According to the Section 9.2 of the Public Enterprises Circular No: PED/12 of 02 June, 2003, prepare an approved cadre should be registered in the Department of Public Enterprises of the General Treasury and in terms of Section 9.3.1 of the said circular formulating scheme for recruitment and promotion of the company should be approved by the appropriate Ministry and the Department of Public Enterprises but the company did not do so.

4.5 Vehicle control

The following observations are made

- (a) The audit conducted an inspection at the physical examination on 22 October 2018 that the Chairman uses a double cab of the National Livestock Development Board. However, none of the National Livestock Development Board or the Mahaweli Livestock Enterprises Limited had a written document in respect of obtaining the vehicle from the National Livestock Development Board and the attaching to the Chairman.
- (b) According to the cabinet decision No. BD / RDS / 124 / CM / 07 dated 08 July 2015, five number of lorries, used by the company and owned by the Mahaweli Authority had been granted to transfer the relevant Ministry is the Ministry of Rural Economic Affairs, but it was observed that, until 25 October 2018 vehicles have not been transferred and no action has been taken to repair in terms of paragraph 4.4 of Public Administration Circular No 30/2016 dated 29 December 2016.

5. Accountability and Good Governance

5.1 Procurement

The following observations are made.

- (a) The Board should formulate the main procurement plan for a minimum period of three years in terms of section 4.2.1 of the Procurement Guidelines, and then the procurement activities for the coming year should be prepared in detail. Nevertheless, the company had not prepared a procurement plan.
- (b) Procurement activities worth between Rs.100 million and Rs.250 million in terms of paragraph 2.14.1 of the Procurement Guidelines, as amended by the addendum no. 33 of 15 March 2017, should be done through the open competitive bidding procedure of the Ministry Procurement Committee. However, the year 2017/2018 For purchases made with food worth Rs.113,232,452 for without the appointment of Procurement Committees and according to a

Chairman's letter dated 17 December 2015 without specifying or quoting the specifications of the nutritional concentration required for the animal feeding stuff, purchases had been made under one-third renewal system by one private institution.

- (c) Procurement activities worth between Rs. 5 million and Rs. 8 million in terms of paragraph No.2.14.1 of the Procurement Guidelines, as amended by the addendum no. 33 of 15 March 2017 should be made by the Ministry of Procurement Committees only after calling for three quotations from three institutions to be subject to market pricing system. In contrast, under the re-ordering system from one institution without price quotation in 2017/2018, the parent animal had purchased the worth of Rs. 7,624,540.

5.2 Budget Control

A formal budget approved by the Board of Directors had not furnished for the audit.

6. Systems and Controls

Weakness observed in systems and controls in audit were brought to the notice of the Chairman of the Company in time to time. Special attention is needed in respect of the following areas of control.

Arrears of Systems and Controls	Observation
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(a) Procurement Activities	There are instances where non-compliances with the procurement guidelines.
(b) Asset Control	The assets are not formally acquired and assets are in idling.
(c) Maintaining of records	Non maintenance of a fixed assets register.
(d) Vehicle control	Vehicle log books have not been completed, Annual survey of vehicles has not been carried out, Proper inspection has not been carried out on the vehicles which were entering and exiting from the farm.
(e) Maintenance of personal files of the officers	Personal files have not been numbered, Officers history sheets have not been updated, Accuracy of officers educational certificates have not been confirmed.

