

Mahaweli Livestock Enterprises Limited -2017/2018

The audit of the financial statements of the Mahaweli Livestock Enterprises Limited for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018 and the statement of profit or loss and the statement of other comprehensive income, 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. In accordance with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, this report contains my observations regarding the performance of the company in the year under review which I intend to submit to Parliament.

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, where 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. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the company'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 company's internal control. And audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

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

1.4 Basis for Disclaimer of Opinion

- (a) According to the cash flow statement, the gratuity paid during the year was Rs.1,602,222, but according to the payment schedule presented, the balance was Rs.1,295,083, a difference of Rs.307,139 was observed. Also, the interest paid in the year under review amounting to Rs.60,380 was not shown in the cash flow statement.
- (b) Rs. 19,897,953 fixed assets in the fixed assets register submitted by the company only recorded the balance as on 01 April 2017 and the transactions of the year under review but the dates of

purchase of each asset were not mentioned. Therefore, it was not possible to identify fully depreciated assets as on 31 March 2018 and the correctness of the written down value of the assets was also not confirmed.

- (c) According to the board of survey report, the book value of Rs.20,179,278 was taken into the financial statement without physical verification of the value of 17,720 breeder stock classified as males and females under 08 categories. As a result, it was not possible to confirm the accuracy of the inventory shown in the financial statements during the audit.
- (d) It was observed that the stock could be overstated due to unusable inventories of mixed feed stock amounted to Rs.124,946 and other stock amounted to Rs.141,337, which came from brought forward inventories of financial statements of year 2016.
- (e) 26 types of chemicals (Drugs) were identified as non-reusable (condemned) from the year 2016 and remained the same in the board of survey report of the company in 2018. The value of these stocks was not submitted to the audit and the evidence required to confirm whether these stocks were included in the closing stock or written off was not submitted to the audit.
- (f) According to the board survey reports of the company, value of 577 condemned inventory items were not submitted to the audit. The evidence required to confirm whether the values of these assets are further included in fixed assets or written off was not submitted to the audit.
- (g) The physical balance of 14 items in the cool room of the processing unit was not included in the board of survey reports and only 9,226 kg mentioned in the bin card was included. The values of these stocks were not submitted to the audit and the evidence required to confirm whether these stocks are included in the final stock was not submitted to the audit.
- (h) In preparing the ledgers for the financial year 2018 through the accounting system, the values (amounts) of the board of survey report were not valued at the lower of cost or net realizable value and no rollback was done until 18 August 2020. It was observed that Rs.36,174,595 stock in the ledger could be over-counted or under-counted due to keeping the values of the ledger the same without updating according to the Board of survey reports.
- (i) In the ledger of the company for the financial year, it was observed that biological assets could not be presented as a separate item in the financial statement as per Sri Lanka Accounting Standard No. 41 due to the fact that the ledger categories were not introduced as biological assets for pigs, coconut trees etc.
- (j) The age analysis and schedules had not been submitted for 9 balances with a value of Rs.36,688,851 included in the trade receivable balance of Rs. 69,183,019, which was 53 percent. There was a risk of non-recovery of those balances that existed for a long time. According to paragraph 63 of Sri Lanka Accounting Standards No. 39, the value of this asset is overstated as there is no impairment of this asset.

- (k) According to the company's financial statements, the total income was Rs.171,804,248, but according to the schedules submitted to the audit, the income was Rs.168,226,004, therefore a difference of Rs.3,578,244 was observed.
- (l) According to the statement of financial position, Rs.11, 507,543 were invested in fixed deposits during the year, but the cash flow statement showed Rs.11, 092,044, therefore there was a difference of Rs.415, 499.
- (m) According to the statement of financial position, the increase in the stock of changes in working capital was Rs.2,768,920 but as per the cash flow statement, the value was Rs.1,905,598, therefore there was a difference of Rs.863,322.
- (n) According to the statement of financial position, the Value Added Tax payable was Rs.702,835 and the Value Added Tax payable as per the Value Added Tax return was Rs.2,312,330, therefore there was a difference of Rs.1,609,495.
- (o) According to the statement of financial position, the income tax payable was Rs.27,157,943, but according to the supporting documents, the value was Rs.27,352,328, which was a difference of Rs.194,385.
- (p) In respect of opening balance values, as per the ledger and statement of financial position other taxes payable and other payable balances a difference of Rs.165,311 and Rs.145,358 respectively was observed.
- (q) According to the profit or loss statements, interest income was Rs.3,413,555, but according to the presented schedule, the interest income was Rs.3,156,025, a difference of Rs.257,530 was observed.
- (r) Rs.2,180,338 had been received as fixed deposit interest during the year, but in the cash flow statement, the value was Rs.4,356,874 and there was a difference of Rs.2,176,536.
- (s) Computation documents for Nation Building Tax payable amounted to Rs. 2,136,334, doubtful debtors for trade and receivables amounted to Rs. 10,630,937, economic service charges and withholding taxes amounted to Rs.931,767, deferred tax amounted to Rs. 2,370,190, income tax payable amounted to Rs. 1,314,491 and value added tax payable amounted to Rs.702,835, and detailed schedules for trade and other payables amounted to Rs.105,245,935 and age analysis for trade and other receivable amounted to Rs.36,688,851 had not been submitted to the audit.

2. Financial Statements

2.1 Disclaimer of Opinion

Due to the facts stated in the basis for opinion in this report, I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. For that reason, I do not express an opinion on these financial statements.

2.2 Report on other legal and regulatory requirements

As required by section 163(2) of companies Act No .07 of 2007, I state the following.

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion due to the matters set out in paragraph 2.2 of this report Accordingly, I do not express an opinion on these financial statements.

2.3 Accounts receivable and payable

- (a) The loan amount of Rs.995,230 owed to the National Livestock Development Board had exceeded 05 years at the end of the year under review but had not been settled.
- (b) It was observed that the balances of Rs.36,688,851 included in the note No. 07 - Trade and other receivables included in the financial statements have existed for more than a year and the company has failed to recover those balances.
- (c) Action had not been taken up to now to settle the dividend tax payable value of Rs.1,970,378, which has existed since the year 2016.
- (d) There were balance more than 2 years old amounted to Rs.1,970,413 and balance between 1-2 years amounted to Rs.47,952,704 in the trade and other payable balance of the 2017/2018 year end account.
- (e) Rs.31,633,183 balances, which were included in the total balance of trade payables of Rs.80,890,415 remained unsettled since 2017. It was observed that it was 39% of the total trade payables balance.
- (f) A suspense creditor balance of Rs.15,497,840 from the year 2017 was not investigated and settled, and it was observed that the balance was 78% of the balance of other payables.
- (g) It was observed that the value of the miscellaneous creditor balance of Rs.827,827 remained unsettled since 2017.

2.4 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non-compliance
(a) Treasury Circular No. 842 of 1978	A fixed asset register was not prepared as per provisions of circular.
(b) Paragraph 69 of Article of Association	According to the Article of Association, the board of directors of this company should be appointed in the annual general meeting, but it was observed that the minister has appointed the board of directors of the company.

3. Financial Review

3.1 Financial Results

As per the financial statements presented, the financial result for year ended 31 March 2018 was a profit of Rs.7,447,304 and the corresponding profit of the preceding year was Rs.26,359,133. Accordingly, a deterioration of Rs.18,911,829 was observed in financial results as compared to the preceding year. Sales revenue compared to preceding year decreased by Rs.4,532,885 that is 2.5 percent and cost of sales increased by Rs.18,001,351 that is 14.8 percent. Accordingly, the decrease in gross profit by Rs.22,534,236 and the increase in administrative expense by Rs.1,184,289 had mainly attributed to this deterioration.

3.2 Analytical Financial Review

As per paragraph 148 of the Companies Act No. 07 of 2007, it was observed that the net asset of the company is less than half of the stated capital of the company and thus the situation of severe capital loss of the company has not been avoided till now.

4. Operational Review

4.1 Performance

(a) Hurugaswewa Farm

- (i) This land does not belong to Mahaweli Livestock Enterprises Limited and there was no lease agreement and no steps were taken to confirm the ownership of the land.
- (ii) It was observed that since the area of this land has not been definitely identified so far, the idle area cannot be definitely identified.
- (iii) Out of the two warehouses located on the land used by the company, it was observed that a chicken feed grinding machine was installed idle in warehouse MLE/1324 and in addition, unassessed items in the warehouse were unsafe.

(b) Kalankuttiya Farm

For this land for nine years from 2010 to 2018, including surcharges, Rs. 10,485,000 has to be paid and as the said taxes have not been paid, the tax lien has been canceled by RPM/T/L/CLO/Gal/74 number and a letter dated 10 October 2017 by the Residential Business Manager (Zone H) of Mahaweli Authority. There were no reports that a tax agreement had been entered into to pay taxes.

(c) The farm where the office is located

This 26-acre land belongs to the Mahaweli Authority and a thirty-year lease agreement was entered into regarding the land on 03 October 1989. It was observed that the tax period ended on 02 October 2019 as per its terms. Further, no action has been taken to update the covenants relating to this land, which has a total value of 31,099 square feet of buildings and 46,924 square feet of structures under construction (no value). As per No. AMP/15/0940/631/018-I and as stated in the Cabinet Memorandum dated 16 July 2015 and No. BD/RDS/124/CM/07 and the Ministry of Finance observation dated 08 July 2015, it is confirmed that, in order to ensure the operational efficiency of the company under the relevant legal procedures, all resources, assets, shares and management should be acquired by the National Livestock Development Board. In 2017, only 27 percent of the company's equity was acquired. However, the acquisition process has not yet started.

4.1.1 Planning

(a) According to the articles of association of the company, the following functions are not performed by the company at present.

- Sale of poultry feed
- Selling, breeding, importing, exporting, processing and dealing in live and non-living parts of cattle.
- Import, export, processing and trading of butter, cheese, ice cream, for sale.
- Grain production and wholesale and retail sale of grains, fruits and flour.

(b) Corporate Plan 2017/2018

In accordance with the Public Enterprise Circular No. 12 on Good Governance of June 2003 and Public Finance Circular No. 01/2014 dated 11 February 2014 after the Board of Directors approved, the corporate plan which prepared 15 days prior to the commencement of the financial year, should be submitted to the line Ministry, Department of Public Entrepreneurship, the Treasury and Auditor General's Department. But the corporate plan was not submitted for audit even on the date of audit, 25 March 2022.

(C) Action Plan 2017/2018

(i) The financial year of this company is from 01 April to 31 March. In accordance with Section 5(2) of the State Finance Circular No. 01/2014, an action plan should be prepared for the financial years from April 1, 2017 to March 31, 2018, based on the project plan.

However, the action plan submitted to the audit was prepared from January 01, 2018 to December 31, 2018.

- (ii) The Board of Directors' approval was not obtained for the action plan so prepared and submitted for audit and the following matters which should have been included in it were not included.
 - a) Statement of financial position and cash flow statement to be included in the annual budget
 - b) Human Resource Development Plan
 - c) Internal Audit Plan
 - d) Description of the updated organization structure, approved staff and existing staff
- (iii) It was observed that in the action plan of 2018, each project and the activities carried out in the company were not separately identified and planned, and physical targets were not specified for the planned activities.
- (iv) It was observed that the information about coconut cultivation and maize cultivation implemented in the company was not included in the action plan of the year 2018.

(d) Performance Report 2017/ 2018

The performance report should be prepared for the financial years from 1 April 2017 to 31 March 2018, but the performance report submitted for the audit was prepared for the period from 1 January 2018 to 31 December 2018, and the following was observed.

- (i) For the year 2018, the company has prepared the performance report only for the physical progress related to the poultry business. A formal performance report was not prepared showing the physical and financial progress of the entire company, including the progress of the company's pig project, agricultural crops, other crops and construction etc.
- (ii) As each project of the action plan prepared by the company for the year 2018 and the activities implemented under it have not been identified and planned separately, it was not possible to compare each other with the physical progress of each livestock project in the performance report.

4.1.2 Performance and review

Niraviya Commercial Boiler Unit Farm and Grover Unit Farm located on two lands belonging to Mahaweli Authority had built 5 chicken boxes to house more than 20,000 boiler chickens and mother animals. The Mahaweli Animal Business Company had not entered into a lease agreement with the Mahaweli Authority for the use of this land and it was observed that the construction and maintenance of the unclaimed land could cause problems for the continued existence of the company.

4.2 Idle or underutilized assets

The following observations are made.

- (a) In the Board of survey report of the year 2018, it is stated that 6 vehicles have become unusable, but it was observed that no action has been taken to dispose of the unusable assets as no value has been shown in the write-offs in the financial statements. The information is below.
 - Missubishi Canter Freezer Truck JJ 4864
 - Samce Tractor with Tayler RB-0578
 - Lorry – Isuzu
 - Lorry – Hino 42 Sri 1471
 - Issusu Lorry – 42/0445
 - Issusu Frezer Truck – 41-8820
- (b) It was observed that a machine installed in the Hurigaswewa poultry feed production yard, which produced about 3 tons of feed daily, was used for feed production until the year 2015, and it remained idle from the year 2015 until the audit date of 25 October 2018.
- (c) According to the Cabinet Decision No. BD/RDS/124/CM/07 dated 08 July 2015, 5 lorries belonging to the Mahaweli Animal Trading Company were given for the use of the company belonging to the Mahaweli Authority, but the vehicles were not handed over until 25 October 2018. According to No. 30/2016 and 29 December 2016 Public Administration Circular 4.4, it was observed that repairs also have not been done.

4.3 Management activities

- (a) In the internal audit queries submitted by the National Livestock Development Board dated 18 June 2020 regarding the company, in the annual stock survey report of the year 2016, 05 rolls of copper wire were listed under excess stock items and on 12 November 2017, at the time of removal of scrap materials, the officers surveyed the stock and it was also stated that he failed to present to the board. According to the letter received from the manager on 18 November 2020, the weight of the wire stock was stated to be 419.5 kilograms, and based on the information obtained from the internet, it was observed that the value of the stock was Rs.251,700 as at 18 November 2020. In this regard, it was observed that the company had not conducted any investigation except filing a police complaint on 14 November 2017.
- (b) During the physical inspection on 22 October 2018, it was observed to the audit that the chairman is using a double cab belonging to the National Livestock Development Board. But there was no written document related to getting that vehicle from the National Livestock Development Board and attaching it to the chairman either in the National Livestock Development Board or the Mahaweli Animal Business Company.

.4.5 Staff administration

The following observations are made.

- (a) Task assignments were not given in writing to 33 officers working in the company's office.
- (b) In accordance with paragraph 9.2 of the Public Enterprise Circular No. PED/12 dated 02 June 2003, an approved staff should be prepared and registered in the State Business Department of the Treasury and according to section 9.3.1 of the said circular, a recruitment and promotion procedure of the company should be prepared and for that, the relevant ministry and Although the approval of the Department of Public Enterprises was to be obtained, it was not done until 10 March 2022, which is the date of the audit.
- (c) As per Management Services Circular No.30, recruitment procedures for staff had not been prepared and approved.

5. Accountability and good governance

5.1 Presentation of financial statements

According to paragraph 6.5.1 of Public Enterprises Department Circular No.PED/12 dated 02 June 2003, the annual accounts must be submitted to the Auditor General within 60 days of the end of the accounting year, but the financial statements for the financial year 2017/18 were submitted to the Auditor General on 21 December 2021, a delay of 43 months was observed.

5.2 Procurements

According to section 4.2.1 of the procurement guidelines, the board should prepare the main procurement plan for a period of at least three years and then prepare the procurement activities for the coming year in detail. However, the company had not prepared a procurement plan.

6. Systems and control

System and control deficiencies observed during the audit were brought to the attention of the company's chairman from time to time. Special attention should be paid to the following control areas.

Systems and control areas	Observations
(a) Presentation of accounts	Non-submission of financial statements within prescribed periods as per circular provisions.
(b) Procurement	Existence of non-compliance with procurement guidelines.
(c) Asset Management	Non-proper accounting of assets, non-formal transfer of assets, non-operation of assets and non-processing of Board of survey reports and non-preparation of schedules.

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| (d) | Maintaining documents | Failures to maintain a fixed asset register. |
| (e) | Vehicle control | Failure to enter information and complete vehicle log books, failure to conduct annual survey of vehicles, failure to conduct proper inspection of vehicles entering and leaving the farm. |
| (f) | Receivables | Failure to take action to obtain trade receivables |
| (g) | Payables | Making payments properly. |
| (h) | Follow-up activities | Prepare performance reports and follow-up according to action and corporate plan. |