

Mahaweli Livestock and Agro Enterprises (Private) Limited - 2017

The audit of financial statements of the Mahaweli Livestock and Agro Enterprises (Private) Limited for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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. My comments and observations on the operation of the Company which I consider should be furnished to the Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium - sized Entities 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. 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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. 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.

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

- (a) According to the Memorandum of Association of the Company, the capital had been consisted by 5,000,000 shares of Rs. 10 each and although only 03 shares had issued to the preliminary directors, other shares had not been issued until 31 December

2017. The three shares had already issued had been given to three directors of another private company and no any share of the Company had given for ownership of the Mahaweli Authority.

- (b) According to the consolidated financial statements of the Sri Lanka Mahaweli Authority, this company had shown as fully owned subsidiary of the Authority and although an investment of Rs. 418,871,277 had shown in that company, no any return for investment had been given to the Sri Lanka Mahaweli Authority.
- (c) According to the Section 17.19 of the Chapter 17 of the Sri Lanka Accounting Standards for Small and Medium - sized Entities, although the book value of Rs. 7,313,171 of fixed assets were totally depreciated, it had further being used due to the useful life of non-current assets are not review annually. Accordingly, actions had not been taken to rectify the estimated error.
- (d) According to the Section 28.18 of the Chapter 28 of the Sri Lanka Accounting Standards for Small and Medium - sized Entities, even though Projected Unit Credit Method or any other similar method should be followed when provisioning of Gratuities, the Gratuity provision had been made by the Company consider the service period and the last drawn salary of the employees. According to the provision was made to that basis and calculations of the audit, the Gratuity provision had been under provided by Rs. 1,216,096 relating to the year under review.
- (e) Even though the economic lifetime of the building in Giradurukotte farm was 20 years according to the accounting policies, the depreciation had been overstated by Rs.187,859 due to depreciations were made by consider the economic lifetime of 05 buildings as 10 years and the economic lifetime of 02 building as 40 years.
- (f) Even though the decrease of inventories were Rs. 941,552 and decrease of receivables were Rs. 17,730,475 according to the statement of financial position, such adjustment had not been made under working capital changes in the cash flow statement.
- (g) The financial statements for the year under review had been prepared by including unidentified inter farm debtor's balance of Rs. 14,117,550 included in the suspense account.
- (h) Even though the cash and cash equivalents value was a minus value of Rs.581,165 as per statement of financial position, such value in the cash flow statement was a plus value of Rs. 313,324.
- (i) Even though the cost and value of Value Added Tax (VAT) to be paid on Property Plant and Equipment in the financial statement of the Company were Rs.102,562,998 and Rs. 2,991,095 respectively, that value as per Ledger account and supporting documents were Rs. 102,473,179 and Rs. 2,499,005 respectively thus unexplained differences were Rs.89,819 and Rs. 492,090.
- (j) The evidence indicated against the following items were not made available to Audit.

Item -----	Value ----- Rs.	Evidence not made available -----
<u>General Reserve</u>		
Mahaweli Economic Agency	403,962,731	} Evidences relating to confirming the value.
Kothmale Dairy Development Fund	2,900,000	
Capital Grants of the European Economic Commission	3,583,706	} Documents relating to accounted as capital grants.
Foreign Aids	5,729,782	
Nation Building Tax payable	285,185	(i) Confirmations (ii) Tax Certificates
Receivable from Mahaweli Livestock Company	1,030,137	} Balance confirmations
Payable to Department of Animal Production and Health	165,600	

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.4 of this report, the financial statements give a true and fair view of the financial position of the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities.

2.1.1 Report on Other Legal and Regulatory Requirements

In accordance with Section 163(2) of the Companies Act No. 07 of 2007, I present the following information.

- (a) The basis for opinion and scope and limitations of audit are as mention above.
- (b) In my opinion, I have obtained all the information and explanations need for the audit,
According to my investigations, the company has maintained formal accounting records,
The financial statements of the company are in line with the requirements set out in Section 151 of the Companies Act No. 07 of 2007.

2.2 Accounts Receivable and Payable

The livestock valued at Rs.5,820,430 of the Nirawiya Farm had transferred to the Ministry of Irrigation and Water Resources Management in the year 2010 had not been recovered at the end of the year under review.

2.3 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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| (a) Paragraph 6.5.1 of Public Enterprises Circular No. PED/12 dated 02 June 2003. | A Draft Annual Report had not been presented along with the financial statements of the year 2016. |
| (b) Public Enterprises Circular No. PED 03/2015 dated 17 June 2015. | Even though the consent of the Finance Ministry with the recommendation of the Secretary of the Line Ministry and the approval of the Board of Directors of the Company should be obtained for obtaining monthly allowances of the Government owned companies categorize under sub-section "F" of the company's categorization, a monthly allowance of Rs. 60,000 had been paid for a Director by obtained the consent of the Minister of Finance and recommendation of the Secretary of the Line Ministry by the Company. |
| (i) Paragraph 2.2 | |
| (ii) Paragraph 2.10 | Even though With Holding Tax should be charged from allowances paid for Non-executive Directors on attending to the meetings and out of monthly allowances paid for Directors, a tax amounting to Rs.14,000 had not been charged and remitted to the Commissioner of Inland Revenue from the allowance of Rs.80,000 paid to 03 Non-executive Directors on attending to the meetings and Rs. 60,000 paid to a Director. |
| (c) Public Finance Circular No. 03/2015 dated 14 July 2015 | Even though advances should be settled immediately after the completion of the purpose it were granted, advances amounting to Rs. 43,936 had obtained 18 months ago from temporary vouchers had not been settled as end of the year under review. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a deficit of Rs. 4,421,557 as against the deficit of Rs.4,025,739 for the preceding year, thus indicating a deterioration in the financial result by Rs. 395,818 in the year under review as compared with the preceding year. Although the administration expenses had decrease by Rs. 871,770 in the year under review as compared with the preceding year, the financial result had been deteriorated mainly due to decrease in the profit earned from key activities by Rs.1,255,075.

4. Operating Review

4.1 Performance

4.1.1 Activity and Review

The following observations are made.

- (a) Even though 12 main objectives had been indicated in the Memorandum of Association of the Company, the objectives of carrying on the cultivations in Company's farms, poultry farming for sale at wholesale and retail, manufacture of poultry feed and supply to farmers, breeding, selling, improving, processing and exporting of animals such as cattle, pigs, poultry etc., carrying on business activities associated with fruits and cereals had not been achieved and only the buffaloes, milch cows, poultry, pigs and goat husbandry on a small scale and activities of dairy products were being functioned.
- (b) When comparing the target production with the actual production had implemented under Livestock Unit as at end of the year under review had been decreased the production as Broiler Chicken by 45 per cent, Pork Production by 4 per cent, goat husbandry by 28 per cent, buffaloes husbandry by 38 per cent.

4.2 Management Activities

The following observations are made.

- (a) Scrap items had recommended for disposal in assets verification of the previous year valued at Rs. 859,256 had not been disposed until end of the year under review.
- (b) Although 04 vehicles amounting to Rs. 3,162,812 own by the Sri Lanka Mahaweli Authority currently use by the Company had shown in the financial statements of the Company, action had not been taken to transfer the ownership of those vehicles. Further action had not been taken to vest the legal ownership of lands of the Head Office of the Company is located in Dematagoda area own by the Mahaweli Authority shown as Rs.14,929,159 under fixed assets in the financial statements.

- (c) According to the salary revision in year 2015, although the provisions had made for arrears salary of Rs. 8,070,961 and contribution to Employee's Provident Fund and Employee's Trust Fund amounting to Rs. 1,817,553, it had not been paid until as at end of the year under review.
- (d) The Stock Verification had not been conducted to confirm the physical existence of the dairy production stocks valued at Rs. 655,202 as at end of the year under review.
- (e) Even though a deposit of Rs. 10,000 should be made by the selected persons for milk transportation of the Company, the deposit had not been made by 03 persons who were selected by such manner.
- (f) The diary productions are being made from machineries were used since year 1986 which diary processes were commenced had established in the Giradurukotte Farm. Sanitation problems had arisen such as due to floor tiles had broken owing to old condition of the factory buildings, weak condition of the roof and leakage of water into the factory, malfunction of the drainage system and weakness in the internal cleaning system. It was observed that legal issues could arise due to carrying out production activities on such weak environmental conditions.
- (g) Due to payment had not been made on payable contributions of Rs.8,713,984 and Rs.627,785 deduct from employee's salaries and provisions were made by employers on Employees' Provident Fund and Employees' Trust Fund respectively from the year 2014 to the year 2017, it was observed that the Company could have to pay a surcharge in future.

4.3 Operating Activities

The following observations are made.

- (a) The assets valued at Rs. 21,359,381 belongs to 05 farms had shown under fixed assets in the financial statements of the Company as at 31 December 2017 had been transferred to the Mahaweli Authority by the Company without a written approval.
- (b) Sales of 45 days completed Broiler chicks for meat is the policy of the Company and the Broiler chickens had to be kept more than 45 days due to inactive of cool rooms in the farm and an additional expenditure amounting to Rs. 2,687,262 had to be incurred only for feed to them.

4.4 Idle and Underutilized Assets

Constructions including cattle sheds and goat sheds and goods by spending a sum of Rs.12,501,900 in the years 2014 and 2015 by System “C” of the Mahaweli Authority had been valued at Rs.8,967,600 and vested to this Company on 08 February 2016 with a view to converting the Giradurukotte Farm belonging to the Company into an Animal Husbandry Training Centre. Even though these constructions which had been carried out for achieving an objective of another party, had been vested to the Company, that asset had remained idle since the date of vested due to a specific plan or methodology in make use of these constructions were not available with the Company.

4.5 Staff Administration

The Niraviya Farm which belonged to the Company had been taken under the line Ministry since October 2010 and the salaries, contributions of Employees’ Provident Fund and Employees’ Trust Fund of 06 employees of the Company who were attached to that Farm are being paid by the Ministry and from March 2016 by the Mahaweli Authority.

5. Accountability and Good Governance

5.1 Budgetary Control

The variances were ranging from 22 per cent to 93 per cent between the budgetary and actual data in the budget had prepared for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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

Areas of Systems and Controls	Observations
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(a) Accounting	Failure to comply with some Accounting Standards in preparing financial statements.
(b) Control of Debtors and Creditors	Failure in taking action to settle balances remaining unsettled for a long period.
(c) Human Resources Management	Improper management in releasing of human resources belonging to the Company to external parties.
(d) Operational Control	Failure in taking action to implement certain objectives mentioned in the Memorandum of

Association.

(e) Assets Control

The existence of idle and underutilized assets and failure to take actions to settle and assets belonging to other parties.