

National Livestock Development Board - 2017

The audit of financial statements of the National Livestock Development Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 observation 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 and 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 Auditing 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.

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 and 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 the 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 2017 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 **Non-compliance with Sri Lanka Accounting Standards**

The following observations are made.

(a) **Sri Lanka Accounting Standard 01**

- I. According to paragraph 38 of the standard, all current values in the financial statements are required to include corresponding previous year values, but the corresponding previous year values were not provided for property plant and equipment, and plantations that are part of the biological assets.
- II. According to paragraph 104 of the standard, unable to disclose additional information on the nature of the expenditure, including depreciation, amortization expenditure and staff benefit expenditure under the expenditure of each project out of the total cost of sales of Rs.199,599,461 operating under the Board.

(b) **Sri Lanka Accounting Standard 10**

The Board had obtained a loan of US \$33,691,351 from Wellard Rural Export Pvt. Ltd. for the importation of dairy cattle in two phases. It was decided to capitalize Rs.6,175,407,893 and write off the entire loan interest by the cabinet paper No. 20/1600/323/010 and dated 10 September 2020. According to paragraph 21 of the standard, this was not disclosed in the financial statements.

(c) **Sri Lanka Accounting Standard 12**

According to the standard, the board had not identified and accounted for deferred tax assets or deferred tax liabilities.

(d) **Sri Lanka Accounting Standard 16**

- I. Contrary to standard, Rs.256,655,083 included in the financial statements under property, plant and equipment for 10411.8 hectares of lands which is not under the control of the

Board. These figures are from before 2004 and the relevant source documents were not submitted for audit to confirm the basis on which that value was taken into account. Also, buildings worth Rs.198,031,557 and constructions worth Rs.1,249,663,008 were carried out on the lands not taken over.

- III. Although the useful life of the non-current assets which are being using should be reviewed annually and account as an estimate change in terms of paragraph 50 and 51 of the standard, 10428 items of fixed assets amounting to Rs.82,309,600 had been fully depreciated and had not been act upon the standard.

(e) **Sri Lanka Accounting Standard 17**

Even though the fair value on present value of the future cash flows should be shown in financial statements in the accounting of lessees in terms of paragraph 25 of the standard, action had not been taken accordingly.

(f) **Sri Lanka Accounting Standard 24**

Short-term employee benefits, post-employee benefits, other long-term benefits and terminal benefits to the entity's key management parties had not been disclosed in the financial statements in terms of paragraph 17 of the standard.

(g) **Sri Lanka Accounting Standard 36**

Impairment assessment should be done annually in terms of paragraph 09 of the standard and it had been included under the accounting policies of the Board. However, such assessment of impairment had not been made with respect to assets amounting to Rs.2,999,249,355 at the end of the year under review. 50604 of unusable items included in the report on board of survey and it was observed that this is an internal source of information that requires an impairment assessment in terms of paragraph 12 (e) of the standard.

(h) **Sri Lanka Accounting Standard 37**

A Decision had been given by the court to pay Rs.3.1 million to external parties for two cases filed against the Board after the reporting period. Although paragraph 14 of the Standard was required to make adjustments to the financial statements, the Board had not made adjustments to the financial statements and made disclosures under the note to the financial statements only.

(i) **Sri Lanka Accounting Standard 39**

According to paragraph 46 (b) of the standard, loans and receivables should be measured on the basis of amortization cost using effective interest and action had not been taken accordingly by the Board. Accordingly, it was observed that the value of the receivables was undervalued or overvalued.

(j) **Sri Lanka Accounting Standard 40**

Instead of taking into account the lands leased as an investment property in terms of paragraph 6 of the standard, the lease value of the lands leased to Brandix Intimate Pvt. Ltd. and Rajawela Holdings amounting to Rs.31.6 million and Rs.29.41 million for 208.015 hectares of lands had been accounted under property, plant and equipment.

(k) **Sri Lanka Accounting Standard 41**

I. In terms of paragraph 2 (b) of the standard, bearer biological assets amounting to Rs.761,554,220 which is out of the scope of this standard and it falls under Sri Lanka Accounting Standards 16. Although that amount should be presented under property, plant and equipment in the financial statements, Board had presented that amount as plantation of biological assets under non-current assets. Further, the values of the plants were not identified in the financial statements separately as mature and immature as per the standard.

II. Pepper cultivation had not been identified in the financial statements as the bearer biological assets.

(l) **Sri Lanka Reporting Standard 13**

The basis for the valuation of Rubber, Cashews and other cultivations amounted to Rs.24,929,309 , Rs.1,335,383 and Rs.1,738,827 respectively which are shown as the commercial cultivations under the biological assets of the financial statements of the Board, had not been disclosed in the statement of financial position in terms of paragraph 91 of the standard.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Rs.4,335,602 of provision for doubtful debts for debtors between 3 to 5 years which was 50 percent of receivables amounting to Rs.8,671,204, had not been provided as per age analysis of debtors and schedule of provision for doubtful debts. Accordingly, Rs.53,653,745 to be provided as provision for doubtful debts but Board had been provided Rs.49,318,143 as provision for doubtful debts. Accordingly, provision for doubtful debts had been reduced by Rs.4,335,602.
- (b) The government grant received for the year under review amounting to Rs.7,175,721 had been presented under investing activities instead of presenting as government grant in the statement of financial position separately and under financial activities of the statement of cash flow.
- (c) Although the short-term investments amounting to Rs.4,934,769 should be included under cash and cash equivalents at the end of the year in the statement of cash flow, Board had recorded as reduction of short term investment under changes in working capital in operating activities.

- (d) Although the annual investment income due on lease assets of 1.2152 hectares of lands in Welisara farm was Rs.1,066,667, it had been recorded as Rs.666,667 under investment income in the financial statements and thereby investment income was undervalued by Rs.400,000.
- (e) The stock value of coconut and copra as at 31 December 2017 in Mahaberiyatenna and Marawila farms had been decreased by Rs.88,071 due to collection errors.
- (f) The increase in the value of biological assets in the financial statements of the Board during the year under review was Rs.160,141,793 and in the year 2016 it was Rs.306,842,364 which is a decrease of Rs.466,984,157 or 152 percent growth was observed. As a sample audit in this regard, considering the biological asset valuation reports of Ridiyagama Farm for the years 2016 and 2017, assuming that all the animals contribute to the milk production, average milk production per animal was 15 liters and Rs.1000 per liter and value of Rs.5,775,000 had been added for all animals in valuation. Pregnancy has been confirmed for only 305 animals and it is problematic to consider that each animal is given 15 liters of milk. It is observed that the average daily milk production of a native animal is about 5 liters and it is not realistic to take it as 15 liters in the calculation and to estimate those values without the recommendation of the Technical Evaluation Committee and to take the value of a liter of milk as Rs.1000. Accordingly, it was observed that the increase in the value of biological assets as stated in the financial statements is overestimated.

2.2.3 Lack of evidence for audit

Schedules and loan agreements had not been submitted for the interest of Farmers' Trust Fund of Rs.98, 023,448.

2.2.4 Unexplained Differences

The following observations are made.

- (a) The hectares of land in Mahaberiyatenna farm was recorded in different sizes as 94.8 hectares in the fixed asset register, 174.9 hectares in the register of lands and 206 hectares in the schedule.
- (b) Details of 04 vehicles belonging to the Board had not been included in the fixed assets register.
- (c) 53 vehicles belonging to the Board which assigned to farms was different from each other according to the schedule and the fixed asset register.
- (d) Although the profit arise on valuation of biological assets of its fair value as at 31 December 2017 amounting to Rs.12,716,521, as per farm accounts it had been recorded as Rs.10,766,096 and thereby difference occurred amounting to Rs.1,950,425.
- (e) Although Rs.53,721,222 was recorded as a change in biological assets under the investment activities of the cash flow statement, it was observed that this is not a cash inflow.
- (f) According to the financial statements, the loan balance of the Wellard Project was Rs.4,462,252,656 as at 31 December 2017, but according to the Treasury Accounts, the balance on that day was Rs.4,473,894,392 thereby difference was Rs.11,641,736.

2.2.5 Accounts receivable and payable

The following observations are made.

- (a) Out of the trade and other debtors balances, the debtors during the period of 1-5 years were Rs.58,982,113 and the debtors of Rs.36,744,288 were over 5 years. It was 17% of the total trade and other debtors and no proper action had been taken to recover that value.
- (b) No action had been taken to recover the receivable of insurance compensation of Rs.19,253,926 until 15 October 2022 for dead cows during importation.
- (c) The Mahaweli Livestock Company, which had been ordered to be taken over by the Livestock Board in the year 2015, has a total of Rs.8,243,900 receivable for more than 4 and 5 years had so far failed to be recovered.
- (d) The Board had not taken an action to recover Rs.2,092,150 due from the Bank of Ceylon in Kantale from 2008, for the project of Kantale up to 15 October 2021.
- (e) Loans granted to the staff of 6 farms before the year 2012 to recover within 5 years amounting to Rs.200,478 had not been recovered within the relevant 5 years.
- (f) Out of debtor balance of Rs.19,435,956 due from coconut brokers at the end of the year under review, there were unrecognized debtor balance of Rs.673,957, loan amount of Rs.11,401,407 over 5 years and loan amount of Rs.4,103,560 between 3 to 5 years.
- (g) In terms of section 24 of the coconut auction rules issued by the Coconut Development Authority, it was stated that a penalty of 20 percent per annum could be levied on coconuts that are not removed within 5 weeks subject to a maximum period of 14 days, but the Board had not taken action to recover the fines of Rs.3,749,341.
- (h) The trade and other creditors balances were Rs.33,543,461 over 5 years which was 8 percent of the trade and other creditors.
- (i) The Sri Lanka Poultry Development Private Limited had made an advance of Rs.140,000,000 in year 2014 for the Board and until the end of the year under review, no work had been done or reimbursed.
- (j) Action had not taken to recover the amounts of Rs.11,947,220 and Rs.2,093,175 for the two cases filled by Board against two parties and those parties were ordered to pay at the end of the year under review.
- (k) Without taking any action to recover the balance of Rs.366,017 in the trade and other receivable debtor balances of head office, older than 5 years an amount was stated as a gratuity retained by the Land Reforms Commission.
- (l) Action had not been taken to recover the debt balance over 3 years amounting to Rs.10,159,200 which was given by head Office, projects and Rosita farm to the relevant Ministry.
- (k) Action had not been taken to recover Rs.562,750 from staff debtors over 5 years.

03. Financial Review

3.1 Financial results

According to the financial statements presented, the Group's financial result for the year under review had been a deficit of Rs.309,248,529 as compared with the corresponding deficit of Rs.432,282,544 for the preceding year thus indicating an improvement of Rs.123,034,015 in the

financial results as compared with the preceding year. Even though operating income was declined by Rs.28,926,560 and cost of sales, administration expenses and finance expenses were increased by Rs.179,730,919, Rs.43,401,303 and Rs.57,188,003 respectively, the gain arising from increase of fair value of biological assets amounting to Rs.466,984,157 was the main reason for the above growth.

3.2.1 Analytical Financial Review

3.2.1 Important Accounting Ratios

Based on the information available, the following are some of the important accounting ratios of the Board for the year under review and for the previous year.

Ratio	2017	2016
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Current Ratio	0.26	0.42
Quick Ratio	0.177	0.179
Gross Profit Ratio	26.98%	17.81%
Net Profit Ratio	11%	15%
Debtors Turnover Ratio	13.01	15.69
Fixed Assets Turnover Ratio	0.92	0.90
Gearing Ratio	8.07	5.61
Debtors Collection Period	28.36	23.27

4. Systems and controls

Systems and control deficiencies 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.

Area of control	Observations
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(a) Accounting	Certain Accounting Standards had not been followed in the preparation of farm accounts.
(b) Valuation of the biological assets of the farms.	Inaccurate criteria for valuation of animals.
(c) Valuation of assets	Failure to value fixed assets in accordance with Sri Lanka Accounting Standards.
(d) Recovery of Debt	Failure to take action to recover long term debt balances.