

## **National Livestock Development Board and its subsidiary - 2018**

---

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the National Livestock Development Board (Board) and its subsidiary including group (“Group”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and profit and loss statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitutions of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No.19 of 2018 and provisions of the Finance Act, No.38 of 1979. My comments and observations which I consider should report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in basis for qualified opinion paragraph of this report, the accompanying financial statements of the Board and Group give a true and fair view of the financial position of the company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities’ for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Management determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Company's financial reporting process.

As per section 16(1) of the National Audit Act No.19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the company.

#### **1.4 Audit Scope (Auditor's responsibilities for the Audit of financial statements)**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect material misstatements when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit, I also

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resource of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Financial Statements**

### **1.5.1 Non-compliance with Sri Lanka Accounting Standards**

<b>Non-compliance with reference to the relevant standard</b>	<b>Comments of the management</b>	<b>Recommendation</b>
(a) The expected credit loss method should be used for subsequent measurements of trade and other debtors balances, which amounted to Rs.175,527,953 as per paragraph 5.5.15 of Sri Lanka Financial Reporting Standards 9. As a result of not doing so, it was observed that trade and other debtors were over or understated in the year under review.	Employee loans were given at 8% interest rate which is similar to prevailing interest rates. Accordingly, there will be no need to calculate an effective interest rate. A provision for doubtful debtors has already been made in respect of other long term receivables.	Subsequent measurements for trade and other debtors should be done as per the provisions of the standard.
(b) Assets should be revalued based on changes in fair value of property, plant and equipment in accordance with section 34 of Sri Lanka Accounting Standards 16. In cases where the fair value does not change significantly, it should be revalued at least every three to five years. However, after the year 2004, all the assets owned by the board, amounting to Rs.2, 845,805,495 were not revalued.	There is a cost to revalue these assets, and due to the financial difficulties of the board, it is difficult to bear the cost; therefore, no such revaluation has been done. But the revaluation is expected to be done as soon as the financial situation improves.	Property, plant and equipment should be stated at fair value as per the provisions of the standard.

- |   |   |   |
|---|---|---|
| <p>(c) The useful life of assets in use should be reviewed annually, and an estimated useful life should be accounted for as a change in estimate in the accounts in accordance with paragraphs 50 and 51 of Sri Lanka Accounting Standard 16. However, Rs.254,755,187 worth of farm equipment, household equipment, motor vehicles, office equipment, machine tools, and structures mentioned in the fixed assets register were fully depreciated and in use, but the life expectancy was not reviewed according to the standard.</p>        | <p>There is a cost to revalue these assets, and due to the financial difficulties of the board, it is difficult to bear the cost; therefore, no such revaluation has been done. But the revaluation is expected to be done as soon as the financial situation improves.</p> | <p>The effective lives of fully depreciated assets should be reviewed and adjusted in the financial statements as per the provisions of the standard.</p> |
| <p>(d) According to paragraph 6 of Sri Lanka Accounting Standards 40, leased land should be accounted for as investment property. However, 206.87 hectares of land leased to 02 private companies belonging to Welisara and Mahaberiyathenna farms were accounted under property and equipment.</p>   | <p>Necessary actions will be taken to account as per Standard No.40.</p>  | <p>Investment property should be accounted for in accordance with the provisions of the standard.</p>   |
| <p>(e) The bearer biological assets of the Board which are not covered by clause (b) of paragraph 2 and clause 4 of Sri Lanka Accounting Standards 41 fall under Sri Lanka Accounting Standards 16. Although the identification, measurement and disclosure of those assets should be done accordingly, the bearer biological assets amounting to Rs.809, 604,153 included in the board's financial statements were not dealt with accordingly.</p>   | <p>Plans have already been made to correct such things in the accounts and it is hoped to identify the assets accordingly and make relevant disclosures in the future.</p>  | <p>Identification, measurement and disclosure of bearer biological assets should be done as per the provisions of the standard.</p>                       |
| <p>(f) Coconut and related products of Sri Lanka Poultry Development (Private) Limited contributed to income that amounted to Rs.7, 687,939 which is 11.92 percent of the total income for the company in the year under review. But the value of the coconut plantation was not assessed at cost or fair value and was not accounted for as a mature plantation in accordance with paragraph 45 of Sri Lanka Accounting Standard 41. Therefore, it was observed that the non-current assets of the company do not show a fair condition.</p> | <p>Action will be taken to present coconut cultivation at cost or fair value through financial statements in the future,.</p>   | <p>The value of mature coconut trees should be assessed and accounted for at cost or fair value as per the provisions of the standard.</p>                |

## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the management</b>	<b>Recommendation</b>
(a) During the year under review, the Board received a consideration of Rs.6,500,000 for handing over the Victoria part of the Mahaberiyathanna farm to the army, but the cost of the land had not been removed from the accounts, and the related profit or loss had not been identified and disclosed in the financial statements.	On 20/12/2018, an advance amount of Rs.6,500,000 has been received due to the handing over of the Victoria part of Mahaberiyathenna farm to the army and the remaining money has been given and the transaction has been completed in the year 2019. Accordingly, the amount of Rs.46,804 which is the development cost of the land has been removed while preparing the accounts for the year 2019.	Land sold should be removed from fixed assets.
(b) In the year 2016, the board made a provision amounted to Rs.12,957,479 for the payment of bonuses, of which Rs.5,219,946 had been paid and the remaining balance of Rs.7,737,533 had been shown under provisions. The over provision was brought forward in the financial statements of the year 2018, and it should have been credited to the accumulated profit, but it was not done so.	Action will be taken to correct the relevant mistake in 2019.	Over provision of bonus should be adjusted to the accumulated profit.
(c) According to the statement of financial position of the board as of 31 December of the year under review, the average total stock of the milk project, Delight project, and store was Rs.38,466,731. But according to the Board of Survey report, the balance was Rs.5,057,020 and thereby a difference of Rs.33,409,711 was observed.	The unreconciled stock value of Rs.23,797,076 of the dairy project was not included in the board of survey report. As of 31 December 2018, all stocks of raw materials related to pasteurized liquid milk products were in the custody of Tunip Lanka (Pvt) Ltd in the application zone and there were no stocks of related raw materials in Welisara farm. Therefore, the Delight product ingredient has not been included in the Board of Survey Report of 2018 by the Board of Survey committee of 2018.	The balance of inventory should be correctly presented in the statement of financial position.
(d) A difference of Rs.18,809,837 was observed between the book balance and the physical balance of 22 stock items as of 31 December 2018 in 04 farms of the board.	As mentioned in the query, there were discrepancies in the data entry in the Board of Survey report of Adigama farm by mistake. Beligama farm coconut stock and Timber stock; Mara Plank stock has been omitted,	The physical inventory balances should be compared with the book balances and discrepancies should

because it cannot be typed. Coconut and Copra in the Mahaberiathenna farm was less than the physical stock balance and they have been recovered from the concerned officials. 05 kilograms of coffee less than it was, has been taken to the stock book, and it has been corrected after the Board of Survey. Due to an error in the computerization of the data during the preparation of the Board of Survey report of the Maradawila farm, the physical balance mentioned in the query was not recorded.

be identified and corrected and accounted for.

(e) A considerable amount of coconut trees and trees which has timber value in the farms owned by the Board were not assessed and accounted for. An income of Rs.33,958,770 was earned from the sale of unaccounted coconut trees and teak trees.

All trees planted for commercial purposes on farms are represented in the accounts. The value of the trees that have been in the farm for some time and trees planted as hedges in the farm, as well as trees planted by farm workers using their own labor at various times, is not reflected in the accounts as they are not managed by the farm. This problem has arisen because it is not possible to accurately determine the value of coconut trees from the data held by the finance division.

Coconut trees and trees which has timber value in farms owned by the board should be assessed and accounted for.

(f) According to the annual Board of Survey reports, as of 31 December 2018, there were 13,327 cattle/buffalo, 38,803 chickens, 9,554 laying hens, 6,956 sheeps, 990 goats, and 208 rabbits. According to the schedule, it was 13,100, 26,638, 19,706, 6,982, 989, and 182, respectively. The difference in the number of animals was 22,597. Also, the commercial projects worth Rs.397,445 in Marawila Farm and the number of laying hens were not included, and the value of 03 cows in Martin farm was not included.

Comments were not given.

The balances shown in the physical survey reports should be accounted for as the closing stock in the financial statements.

(g) As of 31 December 2018, the balance due from Mahaweli Livestock Enterprises Limited was Rs.4,184,415 but in the financial statement of Mahaweli

Action will be taken to look into this and make the necessary corrections in the future.

Action should be taken to investigate the differences and correct the balance

<p>Livestock Enterprises Limited, the balance due to the National Livestock Development Board was Rs.3,079,094. Accordingly, a difference of Rs.1,105,321 was observed between the balances, and action had not been taken to investigate and correct these differences.</p>	<p>due from Mahaweli Livestock Enterprises Limited.</p>	
<p>(h) In respect of 02 short-term investment fixed deposits, the total amount of interest income to be received as of 31 December 2018 is Rs.1,937,062. It was stated in the financial statements as Rs.1,320,484 and the fixed deposit interest income receivable was understated by Rs.616,578.</p>	<p>Accepted. Action will be taken to correct it when presenting the financial statements for year 2019.</p>	<p>Interest receivable on short-term investment fixed deposits should be properly accounted for in income.</p>
<p>(i) Although the milk production of the Dayagama farm should be taken separately from animal to animal, the daily milk production of tempered breeds and tempered heifers was considered to be 10 liters, and Rs.3,530,000 was collected in the valuation. The value of the animals shown in the financial statement was overstated, as there were animals producing less than 10 liters of milk during the audit inspection.</p>	<p>I accept that a mistake has been made and action will be taken to correct it in the future.</p>	<p>Dairy cattle should be properly valued and accounted for.</p>
<p>(j) In the valuation of 2,722 animals in the farms of Koulwewa, Nikaveratiya, Ridiyagama, and Bopattalawa, the daily average milk production of those animals was considered to be 7, 4, 15 liters, and 12 liters, respectively, and a value of Rs.24,437,300 was added. The use of such an average value instead of the actual milk production of each dairy cow was flawed, so the value of the animals shown in the financial statement was overstated or under stated.</p>	<p>I accept that a mistake has been made and action will be taken to correct it in the future.</p>	<p>Dairy cattle should be properly valued and accounted for.</p>
<p>(k) Computation schedules regarding Value Added Tax receivable, which was due prior to 2012 and amounted to Rs.4,506,601 were not submitted for audit.</p>	<p>Action will be taken to negotiate with the Inland Revenue Department, and if there is no such amount of tax to be paid, arrange to write-off with the relevant approval.</p>	<p>The necessary information should be provided for the audit.</p>

(l)The balance of trade and other receivables shown in the financial statements submitted by the National Livestock Development Board as of 31 December 2018 was Rs.203,014,385. The balance of trade and other debtors over one year was Rs.103,217,686 and the balance over 5 years was Rs.57,811,745. It is observed that the recovery of these loan balances is uncertain.

100% provision for doubtful debtors for all debtors above 5 years and periodic provision for doubtful debtors below 5 years has being done annually. Therefore overstatement of debtors had not been occurred.

Action should be taken to recover the balances of trade and other debtors on time.

(m)As of 31 December 2018, in the valuation of 4,398 hens worth Rs.3,476,588 by the Sri Lanka Poultry Development (Private) Limited, the capitalized feed and medicine cost of Rs.3,872,164 spent on those hens during the year under review was not added to the final inventory. Therefore, the profit and inventory of the year under review were understated by an amount of Rs.7,348,752.

Action will be taken to correct.

The closing inventory should be accurately presented in the financial statements.

## 1.6 Accounts receivable and Accounts Payable

### 1.6.1 Accounts Receivable

Audit Observation	Comments of the management	Recommendation
(a)As of 31 December 2018, the balance of fines due from coconut brokers shown in the financial statements submitted by the National Livestock Development Board is Rs.21,171,911. The balance over five years was Rs.7,315,492 which is 34 percent of the total receivable balance. Actions had not been taken by the board to recover the dues and had continued to sell coconuts to the same brokers.	Out of the balance of Rs.7,315,492 over 5 years, Rs.3,652,886 have been recovered through the settlement session on 29.09.2020. Except for W.T Wass Company, the above three companies and G & J Mathews Company are currently being dealt with only.	Fines due from coconut brokers should be recovered as per the agreement.
(b)Action had not been taken to recover festival advance worth of Rs.32,650 over four years. Also, the value of festival advances due from the officials of four farms that exceeded five years was Rs. 278,813.	Further, an amount of Rs.8200 should be charged from the festival advance. The amount of Rs.278,813 is not a festival advance and it was a loan given to the staff. Actions are being taken to write off the irrecoverable loans and recover the other loans from the concerned responsible officials.	Festival advances and loans should be recovered from the concerned responsible officers.



- |  |   |   |
|--|---|---|
| <p>(c)The insurance receivable balance amounted to Rs.19,253,926 due in respect of the imported but dead cows on 13 May 2013, was included in the trade and other debtors balance, and the numbers of the related animals were not submitted. Receivable balances of Rs.663,343 over one year and Rs.34,100 over 2 years related to dairy projects were not recovered. Head Office, Rosita Farm, and Kottukachchiya Farm had not taken steps to recover the outstanding balances worth Rs.18,576,776 over 5 years.</p> | <p>These values have already been identified as irrecoverable debts and the necessary action is being taken to write them off the books by a committee formed with the participation of the Ministry.</p>   | <p>The balances due should be recovered on time.</p>                          |
| <p>(d)The value of prepayments exceeding one year was Rs.421,649 and the value of prepayments exceeding five years was Rs.2,032,449, which was 27 percent of the total prepayments.</p>  | <p>The highest value of prepayments over 5 years is the expenses incurred for the maintenance of court animals in the Haragama farm and the value was Rs.1,852,218. This value will be forwarded to the Audit and Management Committee meeting and taken into the income statement.<br/>Prepaid values between year 1 to year 02 have been settled in the accounts after completion of the respective work.</p> | <p>Prepayments should be settled promptly.</p>                                |
| <p>(e)Action had not been taken to recover receivables over 5 years, which amounted to Rs.1,099,070 due from the staff of the farms.</p>   | <p>Action has already been taken to write off bad debts of more than 5 years, and legal action is being taken for the remaining debts.</p>  | <p>Action should be taken to recover the debts receivable from the staff.</p> |

## 1.6.2 Accounts payable

<b>Audit Observation</b>	<b>Comments of the management</b>	<b>Recommendation</b>
<p>(a)The total creditor balance of the head office was Rs.79,636,722, of which Rs.34,421,296 or 43 percent were over 5 years and had not been settled by the board.</p>	<p>Necessary actions were being taken to write off from the books by a committee formed with the participation of the Ministry.</p>	<p>Action should be taken to settle the balance of creditors.</p>
<p>(b) The value of unsettled refundable deposits exceeding one year was Rs.436,649 and the value of deposits exceeding five years was Rs.1,014,501. It was 68 percent of the total deposit payable.</p>	<p>Parts of these deposits are still used as safe deposits, and action will be taken to find out whether it is possible to settle the remaining value according to the documents.</p>	<p>Action should be taken to settle the refundable deposits.</p>

## 1.7 Non-compliance with rules, regulations and management decisions

References to laws, rules and regulations etc.	Non- Compliance	Comments of the management	Recommendation
(a) Treasury Circular No. PED/12 dated 02 June 2003	(i) In the case of deviations as per clause 5.1.1 of the circular, those deviations shall be rectified and updated, and an approved corporate plan shall be prepared and submitted. Quantitative variations in the budgeted income and expenditure in the year 2018 were observed, but the board had not updated and presented the relevant corporate plan accordingly.	Action had been taken to update the corporate plan for 2021 based on the variations in the budgeted income and expenditure.	Action should be taken as per circular.
	(ii) The production and operational facilities, human resources and management skills, technical knowledge, markets and suppliers, organizational structure, management responsibility included in the action plan regarding the goals and objectives to be accomplished during the planning period, and information regarding the projects under the board had not been included in the 2016-2020 corporate plan, as per Section 5.1.2.	In the preparation of the 2021-2025 corporate plan, arrangements are made to include the matters that should be included in the corporate plan as per section 5.1.2 of the Public Enterprise circular.	Action should be taken as per circular.
	(iii) According to Section 5.1.3, after approval by the Board of Directors, the Corporate Plan should be submitted to the Line Ministry, Department of Public Enterprise, Treasury, and Auditor General, but the 2016-2020 Corporate Plan was approved on 27 October 2016 and submitted late on July 12, 2017.	There were some delays in the preparation of the corporate plan.	Action should be taken as per circular.
	(iv) According to section 5.2.2.(a) an institution belonging to B grade should conduct a feasibility study for projects where the capital investment is more than Rs.2.5 million and even if the board belongs to that grade, such a feasibility study was not conducted for the Rs.3.3 million grass cultivation project.	Agreed.	Action should be taken as per circular.

	(v) As per Section 5.2.4, the draft budget should be submitted to the Board of Directors for approval three months before the commencement of the financial year, but the Board has submitted the budget to the Board of Directors for approval on 21 February 2018.	Comments had not been made.	Action should be taken as per circular.
	(vi) As per section 5.2.5, the budget shall be approved by the Board of Directors and submitted to the line ministry, the Department of Public Entrepreneurship, the Treasury and the Auditor General within 15 days of the commencement of the relevant financial year. But the budget prepared for the year 2018 was approved by the Board of Directors on 27 February 2018 and submitted for audit on 21 May 2019.	Comments had not been made.	Action should be taken as per circular.
	(vii) According to section 6.5.1, the financial statements and draft annual report should be submitted to the Auditor General within 60 days after the end of the accounting year, but the financial statements and draft annual report of the year 2018 had been submitted on 22 March 2022.	Comments had not been made.	Action should be taken as per circular.
	(viii) As per Section 7.4.1 Audit and Management Committee meetings should be held every quarter, but Audit and Management Committee meetings had not been held in the year 2018.	Comments had not been made.	Action should be taken as per circular.
(b)No. 01/2014 and para 5 (2) of Public Finance Circular dated 11 February 2014.	The action plan which included expected commercial activities had not included the operation of Welisara Farm, Delight Development, and Chartered Outlets. The details of the cash flow statement, loan repayment plan, updated organizational structure, approved staff and actual staff to be included in the annual budget document had not been included.	Action plan of 2019 and marketing plan had been submitted for audit. In addition to this, the sales plan by sales items and outlets had been submitted for audit.	Action should be taken as per circular.

(c) No. PED 1/2015 and para 2.1 of the Department of Public Enterprises Circular dated 25 May 2015	Although the chairman was entitled to receive only one official vehicle for duty and personal use, three vehicles were assigned to the chairman from 01 January 2017 to 13 May 2018 and four vehicles from 14 May 2018 to date.	Comments had not been mentioned.	Action should be taken as per circular.
--	---	----------------------------------	---

**2. Financial review**

**2.1 Financial Results**

The pre-tax operating result of the year under review was a loss of Rs.1, 617,810,304 and correspondingly the loss of the previous year was Rs.427, 887,159. Accordingly, an increase in the loss of Rs.1, 189,923,145 was observed in the financial result. This decline was mainly due to the increase in financial costs.

**2.2 Ratio Analysis**

Current assets ratio, Quick assets ratio, gross profit ratio in the year under review were 0.17, 0.11 and 19 respectively while in the previous year those ratios were 0.25, 0.17 and 27 respectively. Accordingly, a decline was observed in these ratios and it was observed that the current assets ratio, current assets ratio is at a weak level, so it is facing a working capital problem. And the decrease in the gross profit ratio had led to the decrease in the sales revenue.

**3. Operational Review**

**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of Managements</b>	<b>Recommendation</b>
(a)The Land Reform Commission and the government owned the land belonging to 24 farms maintained by the Board since 1974 and 1992, and without formal takeover, by 31 December 2016, Rs.194,565,192 worth of buildings and Rs.701,358,733 worth of structures had been built.	Requests have been made to the Land Reform Commission and Land Commissioner General to take over the ownership of land and buildings.	Land ownership should be taken over.
(b)The board acquired 42 vehicles belonging to other ministries: 1 vehicle belonging to Kowulwewa Private Company, 2 vehicles belonging to the Land Reclamation Commission, 9 vehicles belonging to the Department of Animal Production and Health, and 5 vehicles belonging to the Sri	The Comptroller General's Office inquired about the possibility of transferring the registered ownership of the vehicles concerned to the board without paying money, and the Department of Public Enterprises also made inquiries. Sri Lanka Poultry	Action should be taken to obtain legal ownership of vehicles belonging to other ministries and institutions.

Lanka Poultry Development Private Company. Although the vehicles had been put into operation, the legal rights to those vehicles had not been taken.

Development Private Limited was a subsidiary company of the National Livestock Development Board and is currently a farm owned by the board.

This institute had acquired only vehicles numbered 253-4140, 253-4141, and CAC-7973 for farm supervision.

(c) It has been informed that the National Livestock Development Board shall acquire all the resources, assets, shares, and management belonging to Mahaweli Livestock Enterprise Limited as per the decision of Cabinet No. AMP 15/0940/631/018-1, 16 July 2015, subject to the relevant legal processes. Even though, until 25 August 2020, the National Livestock Development Board had acquired only 27 percent of the company's equity, it was observed that the necessary legal processes were not followed to transfer the rest of the equity to the board.

Out of capital shares of Mahaweli Livestock Enterprise Limited, Mahaweli Authority Limited has 45%, National Livestock Development Board has 27%, Netherlands Development Finance Company has 23% and Poultry member farmers has 5%. The Mahaweli Authority owns the land on which the farm operations of this company are run. A case has been filed against the company by an external party to get the loan money. Due to these facts, this company could not be dissolved and handed over as a farm of the National Livestock Development Board.

Action should be taken to take over all the shares as per the Cabinet decision.

(d) Accuracy of the provision for depreciation amounted to Rs.2,785,767 and the written-down value of property, plant, and equipment amounted to Rs.82,868,230 in the financial statements for the year under review could not be checked satisfactorily due to non-maintenance of the fixed assets register up-to-date by Sri Lanka Poultry Development (Private) Limited.

An accurate fixed asset register will be maintained in the future.

Fixed asset register should be maintained up to date.

(e) Regarding coconut project income, the coconut income of 05 farms was left out of the corporate plan, and when considering the cost, the cost of 06 farms was left out of the corporate plan.

The income of Polontalawa farm is mentioned under coconut projects and the income of Welisara farm is mentioned under piggery projects.

All farm income should be included in the cooperate plan.

(f) It was observed that the sum of Rs.72,147,214 of 12 farms was overstated and sum of Rs.158,003,334 of 16 farms was understated than the value allocated in the action plan for the expenditure related to the board's livestock project.

Comments had not been made.

The expenditure in the action plan and expenditure in the budget should matched.

- (g) The three posts of Assistant General Manager, Manager, and Assistant Manager in the Accounts Division have been vacant from the year 2017. The post of Assistant General Manager (Human Resource and Control) has been vacant from January 2016. The post of Manager (Finance) has been vacant from 25 October 2016, and the post of Supervisory and Operations Manager has been vacant from 3 September 2016. The post of Assistant Manager (Finance) has been vacant since 1 December 2015, and the post of Assistant Manager of Supervision and Operations has been vacant since 25 August 2011. But action had not been taken to fill those vacancies.
- Assistant General Manager (Finance) will be recruited after appointing of the Board of directors. An officer had been employed for the vacancy of Manager (Finance).  
The post of Assistant Manager (Finance) filled on 01.10.2018. The post of Assistant General Manager (HR and Control) had been filled. As per our approved recruitment procedure, post of Manager (Supervision and Operations) cannot be recruited and the post of Assistant Manager (Supervision and Operations) had been filled by now.
- Steps should be taken to fill up the vacant posts or revise the approved number of employees.
- (h) Although the United Nations Association has introduced the Sustainable Development Agenda by 2030, based on the provision of economic growth, social development, and environmental protection in all countries belonging to the organization. Accordingly, the desired objectives, targets and indicators were not identified.
- Desired objectives, targets and indicators of the board had been identified and included by SCI (State Institutional Intention Document) up to now, and it was included in the corporate plan prepared for the years 2021-2025.
- Desired objectives, targets and indicators should be identified.
- (i) Five cases are being pending from the year 1993 until the 31 of the year under review, which assigned by external parties regarding land and a case against the concerned party regarding the collection of Rs. 11,947,220 for the sale of maize by the board, etc.
- Five land cases are pending in court in the year 2018. According to the judgment of Kantale District Court N/52/2012 assigned against Agro Trading Lanka Private Limited, an amount of Rs.11,974,220 has been ordered to be collected. There is no possibility to recover because the company is not active.
- The amounts to be recovered and the amounts to be paid should be settled promptly. The chances of taking legal action should be minimized.
- (j) On 28 June 2007, Rs.37.55 million had been given to the board by the General Treasury to establish a maize cultivation project on 1000 acres of land at Kantale under East Navodaya on a revolving fund basis. Due to the failure of that project, on 11 September 2011, when the land was handed back to Kantale Sugar Company,
- Due to severe financial difficulties of the board, it has not been possible to pay this amount. Action will be taken to discuss this with the Department of Public Enterprise and arrange to pay in the future.
- Should act according to the decision of the Cabinet.

the amount of Rs.17,549,342 in the revolving fund should be sent to the General Treasury as per the decision of the Cabinet dated 20 June 2007. On the contrary, an amount of Rs.13,295,637 has been deposited in a fixed deposit at the state bank since 2011.

- |     |   |  |  |
|-----|---|--|--|
| (k) | According to the project feasibility study report, it was stated that after the start of the imported cattle project, profits will be made from the second year and the profits will gradually increase from the 4th year to the 10th year. Menikpalama, Diagama and Bopattalawa farms that kept imported cattle in 2012 and 2013 had sustained losses from 2016 to 2018. In the year 2015, the Ridiagama farm, where the imported cows are kept, had a net loss of Rs. 8 million and Rs.165 million in the years 2017 and 2018 respectively. | The National Livestock Development board had not conducted a feasibility study for bringing these animals to Sri Lanka.  | Project feasibility study reports should be properly prepared. |
| (l) | It was observed that 14 motorcycles, 04 tricycles, 04 Mitsubishi double cabs, 03 tractors and 01 Mitsubishi Pejero purchased from 1966 to 2018 were not in a condition suitable for driving. Out of that, 14 motorcycles and 4 three-wheelers have been withdrawn from operation, and 2 tractors have not been repaired and put into operation.   | 04 Mitsubishi L 200 double cab vehicles bearing Nos. 54-3419, 54-3415, 51-1088 and 54-3420 and Mitsubishi Pejero Jeep bearing No. 32-0743 had been disposed as per the circular. Action will be taken to dispose After settling the registered ownership of 14 motorcycles; action will be taken to dispose of them along with 04 three-wheelers. It has been decided to repair and put the three tractors into operation, and the tractor No. 37-6865 has been repaired and put into operation. | The vehicles owned by the board should be used effectively.    |
| (m) | In terms of sub-section 9:1 of Chapter II of the Establishment Code, prior approval of the Council of Ministers is mandatory for reinstatement of a retired officer. In terms of sub-paragraph 9.10 of Public Business Circular PED/12 dated 02 June 2003, prior approval of the Secretary to the Treasury is mandatory for recruitment and payment on contract basis or casual basis. Without such approval, the former General Manager was appointed by the Board of Directors to serve in that   | On 23 November 2017, applications were called for the position of General Manager through a newspaper advertisement and from internal applicants, and since there was not a single application that met the qualifications for the position, an appointment was made to the former General Manager for a period of one year to look after the work of the position subject to the approval of the Board of Directors. The contract allowance of the  | Should act according to the Establishment Code and circulars.  |

position from 16 January 2018 to January 2019 after his retirement.

General Manager recruited on contract basis has been decided and given in accordance with the powers assigned to the Board of Directors under Section 5.2.(b) of the Agricultural State Corporation Act No. 11 of 1972 which established the National Livestock Development Board.

(n) The Deputy General Manager (Corporate and Operations) who was suspended on 31 January 2016 was reinstated on 12 December 2017 and the post of the officer appointed to work for that post on 17 October 2017 should be cancelled. From 12 December 2017 to 31 December 2018, the allowance under consideration is Rs.54,000 had been paid.

The Acting Deputy General Manager, who was deployed in the field to supervise new projects, was deployed for service without being removed. The position of Deputy General Manager (Corporate Operations) is a position in the head office, and I inform that engagement in field work is not assigned as duty responsibilities of that position.

Acting allowances should be paid according to rules and regulations.

### 3.2 Operational inefficiencies

Audit Observation	Comments of Managements	Recommendation
(a) According to the Board of Survey report of Karandagolla Farm, it was observed that there were slow-moving stocks worth Rs.513,387 in the general stock.	Some of the items were purchased as per the requirements of the farm, and these items will be used as per the requirements, so there is no loss to the board.	Slow moving stocks should be used before expiration.
(b) According to the farm accounts, considering the 04 farms where the imported cow project is implemented, the cost of animal feed in those farms was 69 percent of the milk income, while the cost of animal feed in 18 farms with other cow projects was 47 percent of the milk income. Also, the cost of animal feed in 04 farms where the buffalo project was implemented was 32 percent of the milk income. Accordingly, considering only the cost of cattle feed, the buffalo project was observed to be more profitable among the imported cow project, the domestic and hybrid cow project, and the buffalo project, but no special attention was paid to the buffalo project.	Comments had not been made.	The board should focus on more profitable projects.



- (c) According to the annual reports of the Department of Census and Statistics and the Central Bank, in the year under review, the total milk production in the country was 391,530,600 liters, coconut production was 2,623,000,000 nuts and poultry production was 24,277,830 animals, of which the National Livestock Development Board's milk production was 14,002,607 liters and coconut production. Nut production was 12,990,883 and poultry production was only 3,070,823 animals. Accordingly, the board's contribution to the national production was at a very low level of 3.6 percent of milk production, 0.5 percent of coconut production and 12.6 percent of poultry production.
- The overall contribution of the board has been determined based on the number of dairy cows currently owned by the board, the amount of coconut land, and the capacity of the number of breeding chickens.
- The contribution to the national production should be increased according to the production of the board.
- (d) 2,319 metric tons to 12 farms under the National Livestock Development Board, 559.6 metric tons to the Sri Lanka Poultry Development (Private) Limited, and 1,674.7 metric tons to the Mahaweli Livestock Enterprise Limited for a total of 4,553.3 metric tons is required. Rs.248.77 million had been paid to 3 private institutions for that purpose. In 2018, this cost was 39, 64 and 54 percent of the gross income of each institution respectively.
- In poultry farming, 80% of the money is spent on animal feed and the purchase of feed may vary depending on the age groups of the animals in the respective farms as well as the size of the animals. Accordingly, the above expenses have been reported by changing the number of animals and the age of the animals in the respective institutions that year.
- Action should be taken to reduce the cost by using the machines owned by the board for poultry feed.
- (e) In the year 2018, the direct cost of 04 farms with imported cattle was Rs.1.068 million, the total gross loss after incurring direct expenses from each farm was Rs. 133 million, and the gross profit of Ridiyagama Farm is Rs.5 million. Accordingly, it is observed that there is a situation where it is impossible to cover at least direct expenses for these farms.
- Ridiyagama Farm has been a loss-making farm since its inception. Considering the electricity bill and other expenses for maintaining the animals, it has been reported that there is a situation where it is not possible to earn income. The National Livestock Development Board had not conducted a feasibility study when bringing these animals to Sri Lanka.
- Action should be taken to bring the loss-making farms with imported cattle to a profitable position.
- (f) Expected milk production of 4,495 imported dairy cows, which were imported at a cost of Rs.4462 million by
- The impact of weather conditions and the increase
- Action should be taken to increase

foreign loans in the years 2012/2013 and 2015, and all the dairy cows in 20 farms produced 24,745,729 liters of milk in 2016, 20,096,620 liters of milk in 2017, and 20,031,372 liters in 2018. Actual milk production was 17,147,819 liters of milk in 2016, 14,368,585 in 2017 and 14,002,607 in 2018. Accordingly, the actual milk production was less than 31 percent 28.5 and 30 percent respectively from the expected amount of milk production. Regarding 04 farms, the cost of cattle feed was 68 percent and 69 percent from the milk income in the years 2017 and 2018 and the loss after deducting the direct costs of the milk project was Rs.220,040,086 in the year 2017 and Rs.411,526,157 in the year 2018.

in the cost of food in the market were the reasons.

milk production and reduce the direct costs of the project.

- (g) 4 farms of National Livestock Development Board have 4 machines capable of producing 3.75 metric tons of feed once a day, which remained idle for 1 to 9 years.

Animal feed and mineral mixtures for poultry, cattle, and pigs are produced through animal feed mills established at Horakele, Weerawila, Miriswatta, Karandagolla, Kottukachchiya, Sri Lanka Poultry Business Company, and Mahaweli Livestock Enterprise Limited by now.

Action should be taken to use machines that can produce cattle feed.

- (h) 3 farms under the National Livestock Development Board have 05 poultry feed processing machines, Mahaweli Livestock Enterprise Ltd. has 01 machine, and Sri Lanka Poultry Development (Private) Company has 02 machines with the capacity to produce 30,960 metric tons of poultry feed per year. But by the end of 2018, those 8 machines had remained idle for a period of 1 to 9 years.

Animal feed and mineral mixtures for poultry, cattle, and pigs are produced through animal feed mills established at Horakele, Weerawila, Miriswatta, Karandagolla, Kottukachchiya, Sri Lanka Poultry Business Company, and Mahaweli Livestock Enterprise Limited by now.

Action should be taken to use the machines that can be produced poultry feed.

- (i) The National Livestock Development Board, Mahaweli Livestock Enterprise Limited, and Sri Lanka Poultry Development (Private) Company own a total of 12,617.43 hectares of land, and as of 31 December 2018, a total of 2,311.35 hectares of that land remained unused.

The following Underutilized land should be used effectively. The amount of land leased in 2021 is 500, 1000, 200 acres in Parasankaswewa, Oyamaduwa, and Weerawila, respectively, and the amount of land leased in 2022 is 980, 826, 150, 150, 250, 100 acres in Parasankaswewa, Oyamaduwa, Weerawila, Kottukachchiya, Nikaveratiya, and Marandawila, respectively.

The amount of land leased in 2021 is 500, 1000, 200 acres in Parasankaswewa, Oyamaduwa, and Weerawila, respectively, and the amount of land leased in 2022 is 980, 826, 150, 150, 250, 100 acres in Parasankaswewa, Oyamaduwa, Weerawila, Kottukachchiya, Nikaveratiya, and Marandawila, respectively.

### 3.3 Procurement Management

Audit Observation	Comments of Management	Recommendations
<p>(a) According to paragraph 2.14.1 of the Procurement Guidelines as amended by Supplement 33 dated 15 March 2017, purchases of more than 100 million should be made by the Procurement Committee appointed by the Cabinet, but the Procurement Committee of the Board purchased cattle feed worth Rs.794,241,795 in the year under review in relation to the board.</p>	<p>Cattle feed is purchased several times a year, and at the time of purchase, the total value of the respective cattle feed does not exceed 100 million. So the board had decided to purchase through the procurement committee of the board.</p>	<p>Action should be taken as per Procurement Guidelines.</p>
<p>(b) In the year 2018, in relation to Ridhiagama, Menikpalama and other 19 farms of the board, according to the sample inspection of cattle feed purchases, Rs.84,222,564, Rs.62,486,124 and Rs.335,447,092 were paid to private suppliers respectively. Rs.46,108,867 had been paid to private suppliers for purchase of chemical fertilizers. The following points are observed regarding this procurement.</p>		

- |   |  |   |
|---|--|---|
| (i) A total cost estimate as per 4.3 of the Procurement Guidelines and a procurement timetable as per 4.2.2 and 4.2.3 of the Procurement Guidelines had not been prepared.  | I inform you that a cost estimate for the purchase of fertilizers will be prepared, and a total cost estimate under 4.3 and a procurement timetable under 4.2.2 and 4.2.3 will be prepared in the future.  | Action should be taken as per Procurement Guidelines.                   |
| (ii)As per 8.8.1 of Procurement Guidelines, the Board was supposed to issue letters stating the reasons for non-selection to the suppliers who were not selected for procurement, but this was not done.  | It will be done from the beginning of 2022.  | Action should be taken as per Procurement Guidelines.                   |
| (iii)According to 5.4.8 of the procurement guidelines, the suppliers who have been selected should submit performance guarantees, although the board has not taken steps to obtain the performance guarantees.  | The concerned suppliers refused to give a performance bond as the purchases of animal feed were made in short term and there was huge arrears to suppliers for the supply of animal feed. Arrangements have been made to obtain the reasons for not submitting the performance guarantee in writing from the relevant suppliers from the year 2022.  | Action should be taken as per Procurement Guidelines.                   |
| (iv)According to 8.9.3 and 8.9 of the Procurement Manual, there should have been a written agreement in the procurement of cattle feed for farms and fertilizer for the farms of the board, but the board had not acted accordingly.  | Written agreements had been signed with selected suppliers for the supply of animal feed and fertilizer in the year 2018.  | Should act as per the Procurement Guidelines.                           |
| (v)According to the tender conditions, the samples obtained from the suppliers should be subjected to laboratory tests and the purchases should be made after confirming the quality, but without taking the samples, cattle feed had been purchased at Menik Palama and 19 other farms.                                    | From the year 2020, in the selection of suppliers, selections have been made through the process carried out through the Technical Evaluation Committee after undergoing a laboratory test of the samples of the relevant animal feed.   | Purchases should be made after confirming quality of sample.            |
| (vi)The procurement committee of the board had arranged to purchase and pay 834.5 metric tons of cattle feed from a private company in Jaela area from 14 November 2018 to 01 January 2019 for the Ridiagama farm without calling for tenders and testing samples on 08 November 2018 at an invoice price of Rs.53,063,164. | Mahaweli Feed Mills had submitted bids for the tender called for the purchase of cattle feed (Type 01) to Ridhiagama Farm. Therefore, on the recommendation of the Technical Evaluation Committee, the cattle feed tender has been offered to Mahaweli Feed Mills in order to supply cattle feed to Ridhiyagama Farm from 8 November 2018 to 31 December 2018 without re-inviting tenders. | Purchases should be made after calling for tenders and testing samples. |

- |   |   |   |
|---|---|---|
| <p>(vii) In the purchase of cattle feed for Ridiyagama farm, a report of the opening of bids was kept by a committee of three officers, but the report did not include the financial details of the bid price with and without VAT, the bid security amount and the bank holding it as per paragraph 6.3.6 of the procurement guidelines.</p>   | <p>According to paragraph 6.3.6 of the Procurement Guidelines, arrangements have been made to include the financial information that should be included under a, b, and c from the year 2022.</p> | <p>Action should be taken as per Procurement Guidelines</p>   |
| <p>(c) There was no focus on reducing animal feed costs and increasing farm profitability by using the new knowledge of the Department of Animal Production and Health and poultry feed processing, grinding, and mixing machines owned by the farms and other companies under the National Livestock Development Board and from the lands where crops such as corn and soya are grown for animal feed.</p> | <p>Arrangements have been made to produce the animal feed required for breeding poultry farms and pig projects in the animal feed factories of the board from the year 2022,.</p>                 | <p>Action should be taken to produce feeds for chickens using the grinding and mixing machines that own to the board.</p> |