

Mahaewli Livestock and Agro Enterprises (Private) Limited Company - 2018

1. Opinion

1.1 Qualified Opinion

The audit of the financial statements of the Mahaewli Livestock and Agro Enterprises (Private) Limited Company for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of compressive 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 Constitution of the Democratic Socialist Republic of Sri Lanka in conjunction with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements 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 for Small and Medium Sized Entities.

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 for Small and Medium Sized entities Accounting Standards and for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement, 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 Sub-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 Institute.

1.4 Auditor's responsibility for 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 a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement 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 statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are 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 resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statement

1.5.1 Accounting Deficiencies

	Audit Issues	Reopen so of the management	Auditor's Recommendation
	-----	-----	-----
(a)	Cash inflow of Rs. 2,938,675 effect of changes in trade and other receivable during the year to be reflected in working capital changes in the cash flow statement had been stated as cash outflow.	Corrected in the adjusted Cash Flow Statements.	Action had to be taken to correct the Cash Flow Statements.
(b)	A cash outflow of Rs. 343,120 related assets purchases had recorded been stated as cash inflow under investment activities of the cash flow statement.	Corrected in the adjusted Cash Flow Statements.	Action had to be taken to correct the Cash Flow Statements.

1.5.2 Non – Compliances with Sri Lanka Accounting Standards For Small and Medium Sized Entities

Non Compliances to Reference to Relevant Standards	Response of the Management	Auditor's Recommendation
(a) Due to not reviewing the useful life of non-current assets annually as per the section 19 of the chapter 17 of the Sri Lanka Accounting standards for small and medium-sized entities, the book value of fixed assets amounting to Rs. 20,713,363 had been to tally depreciated , but the assets were being further used. Action had not been taken to rectify the resulting estimated error.	Will inform that the fully depreciated assets in the year 2018, will be revalued and accounted in the year 2019.	Action should be taken to revalue of the assets in accordance with the provisions of the standard.
(b) According payment of Rs. 224,805 Which should be considered as cash outflow in the cash flow statement according to the chapter 7.4 (b) of accounting standards for small and medium-sized entities had not been included in the cash flow statement.	Corrected in the adjusted cash flow statement.	Action should be taken to prepare the cash flow statement according to the standard.
(c) According to the Chapter 5.5 of Accounting Standards for Small and Medium – Sized Entities, At least income and financial costs should be presented on the face of the comprehensive income statement, but instead gross profit had been calculated on a note of income and expenses and stated on the face of the comprehensive income statement.	Will inform that action will be taken to show the financial cash on the face of the Comprehensive Income Statement for the year 2019.	Action should be taken to prepare the Financial Statement according to the standard.

1.5.3 Suspense Accounts

Item	Value	Period of Suspense	Response of the Management	Recommendation
	Rs.			
The financial statements had been prepared without taking action during the year under review to rectify the inter farm debtors suspense account unsettled since year 2017.	14,117,550	2 years	Inform that this suspense account will be settled in the final accounts for the year 2019.	Action should be taken to settled the suspense account promptly.

1.5.4 Lack of written evidence for audit

Item	Value	Evidence not made available	Response of the Management	Recommendation
	RS.			
(a) Balance shown in the financial statement as receivable from Mahaweli Livestock company had not been acknowledged by that company.	1,030,137	Evidences relating to confirming the value.	Not forwarded.	Arrangements should be made to obtain the balance verification audit for directly.
(b) General Reserve				
Mahaweli Economic Agency	403,962,731	Evidences relating to confirming the value.	The company has no any evidence relevant to these values.	Arrangements should be made to obtain the balance verification audit for directly.
Kothmale Diary Development Funds	2,900,000			

European Economic Commission Grants	Capital	3,583,706	} Documents relating to accounted as Capital Grants	There is no balance certificate for this balance. These payments have been discontinued since 2012. Therefore, it is informed that this balance will be write off in for the year 2019.	Arrangements should be made to obtain the balance verification audit for directly.
Foreign Aids		5,729,782			

1.6 Accounts Receivable and payable

1.6.1 Receivables

Audit Issue

The livestock value 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.

Response of the Management

Although requests home been made during this year to settle these balances it has not been materialized and it is informed that action will be taken to settle them in the year 2019.

Recommendation

Action should be taken to recover the receivable balance promptly.

1.6.2 Payables

Audit Issue

- (a) According to the salary revision in year 2015 although the provisions had made for arrears salary of RS. 6,893,711 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.

Response of the Management

Inform that action will be taken to make payment next year.

Recommendation

Steps should be taken to pay the payable balance immediately.

(b)	It was observed that the company may have to pay surcharges in the future due to non – payment of contribution from 2013 to 2018 amounting to Rs. 12,015,025 to the employees provided fund.	Inform that action will be taken to pay the money payable to the employees provident fund , once Rs. 5.8 million receivable from the ministry of Irrigation and Water Resources Management receive and the balance will be paid upon commencement of the public and private partnership.	Action had to be taken settle payable balances immediately.
-----	--	--	---

02. Financial Review

The operating result of the year under review amounted to loss of Rs. 4,428,901, and the corresponding loss in the preceding year amounting to Rs. 4,421,557. Therefore an deterioration amounting to Rs. 7, 344 of the Financial result was observed. The reasons for the deterioration is no restructure business activities of the Company.

03. Operating Review

3.1 Management Inefficiencies

Audit Issue	Response of the Management	Recommendation
-----	-----	-----
(a) Cabinet Decision No. 16/0063/704/003 of 28 January 2016 approved the incorporation of a private investor to reorganize the Mahaweli Livestock and Agro Enterprises (Private) Limited Company as a public private partnership, the Cabinet Decision No. 18/2083/803/031 and dated 3 October 2018, authorized the secretary to the Ministry of Mahaweli Development and Environment to proceed with the approval of a private company, but these decisions had not been implemented until 29 July 2019.	Inform that it is essential to reorganize as a Public Private Partnership.	Steps should be taken to implement cabinet decision or if not they revised.
(b) According to the Memorandum of Association of the company the authorized capital include 5,000,000 shares of the value of Rs.10 and only 3 shares had been issued to the initial directors, but, the other shares had not been issued until 31	Inform that action is being taken during the year 2019 to reassign the 03 shares issued in the name of the company to the	Action should be taken to issue shares to the Mahaweli Authority of Sri Lanka.

December 2018. The issued 3 shares had been given to 3 directors of another private company and no shares of the company had been used to the mahaweli Authority for the over ship. Mahaweli Authority of Sri Lanka.

3.2 Operation Inefficiencies

Audit Issue	Response of the Management	Recommendation
(a) Even though 12 main objectives had been indicated in the Memorandum of Association of the company, the objective of caring 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. caring on business activities associated with fruits and cereals had not been achieved and only the buffaloes, mulch cows, poultry pigs and goat husbandry on a small scale and activities of dairy products were being functioned.	To achieve these objectives, action has been taken to launch a public private partnership. Inform that action will be taken to achieve these objectives once above process is completed.	Necessary action should be taken to achieve the objectives set out in the Memorandum of Association.
(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 27 percent pork production by 16 percent, goad husbandry by 11 percent, on a small scale and activities of dairy products were being functioned.	-do-	Necessary action should be taken to achieve the target production.
(c) Although 04 vehicles amounting to Rs. 3,162,812 own by the Sri Lanka Mahaweli Authority currently use by the company had shown to the Financial Statements of the company, action had not been taken to vest the legal ownership of Land's of 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.	Inform that action will be taken to transfer next year.	Action Should be taken to transfer ownership of the used vehicle to the company.

- (d) 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 leak ago of water in to the factory, malfunction of the drainage system and Weakness in the internal cleaning system. It was Observed that legal issues could arise due to caring out production activities on such weak environmental Conditions.
- Public private partnership are planned to establish to solve these issues.
- Action should be taken to correct the sanitation problems which arises during the production.
- (e) The assets valued at Rs. 21,359,387 belongs to 5 forms had shown under fixed assets in the Financial Statements of the company as at 31 December 2018 had been transferred to the Mahaweli Authority by the company without a written approval.
- Inform that action will be taken to transfer the relevant assets values of these five farms to Mahaweli Authority of Sri Lanka in the year 2019.
- Assets should not be transferred without written concern.
- (f) 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 8 February 2016 with a view to converting the Giradurukotte Farm belonging to the company in to an animal husbandry Training contravene 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 the since the date of vested due to a specific plan or methodology in make use of these contracting were not available with the company.
- The company does not have the ability to buy animal's for use in this cattle shed calves. Therefore goat shed inform that these sheds will be utilized for the productive purpose after setting up of public private partnership.
- Method logiest should be developed to utilize these constructions.