Milco Private Limited - 2019

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1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Milco Private Limited (“Company”)for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and 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. My comments and observations which I consider should report to Parliament appear this report.

I do not express an opinion on the financial statements of the Company. Due to the significance of the matters discussed in the Basis for Disclaimer of opinion section, I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements..

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the facts set out in paragraph 1.5 of this report.

1.3 Responsibilities of Management and Those Charge 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 Auditor's Responsibilities for the Audit of the 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 scepticism 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 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with reference to the relevant standard	Comments of the Management	Recommendation
(a)	In accordance with Section 32 of Sri Lanka Accounting Standards 01, Assets, liabilities, income and expenditure balances should not be offset and presented in the financial statements except in cases permitted by the standard. The company had been offset Rs.13,604,379 credit balances to the trade debtor debit balance, and Rs.14,875,643 credit balance in other receivable were offset against the other receivable debit balance. Apart from this, the head office has a Rs.21,751,560 debit balance with creditors, and that value was offset against the credit balance shown in the financial statements. It was observed that there were debit balances amounting to Rs.237, 515,813 in the values of other creditors, accrued payments, values payable to government institutions, and balances payable to other parties.	Action will be taken to remove the balances that can be removed in the coming years.	Assets, liabilities and income and expenditure balances should not be offset and presented in the financial statements.
(b)	According to Sri Lanka Accounting Standards 02, the closing inventory should be shown in the financial statements at the lower of cost or net realizable value. In the closing inventory of Ambewela factory, there were 1,556 engineering stock items with an identifiable value of Rs.6, 041,166 and 555 engineering inventory items with an unidentifiable value, 17 spare parts with an identifiable value of	It will Get approval from the engineer and correct it next year.	The closing stock should be shown in the financial statements at the lower of cost or net realizable value.

	Rs.1, 043,529, and 225 spare parts with an unidentifiable value in Polonnaruwa factory. In the Digana dairy factory, there were Rs. 326,940 worth identifiable 137 machine spare parts, Rs.195,746 worth 25 vehicle spare parts, unidentifiable 35 machine spare parts and 41 vehicle spare parts, Rs.13,533,994 worth of raw materials and packaging materials, and Rs.89,690 worth of general Inventory, etc. that were unissued Inventory for over 28 years from 6 years. Hence the inventory was over/under valued.		
(c)	According to paragraph 5.5.15 of Sri Lanka Financial Reporting Standards 09, the trade and other receivables balance of Rs. 1,191,235,517 should be impaired and adjusted using the expected credit loss method. As this had not been done, the profit and trade and other receivables balance of the year under review had been overstated.	Due to having a bank guarantee, 100% of the loss can be recovered from that guarantee. If there is a balance of many years, a special provision (SPECIFIC PROVISIONS) will be made, and a debtor age analysis cannot be obtained through the accounting system.	When valuing Trade and other receivable balance should be valued using the expected credit loss method.
(d)	According to Sri Lanka Accounting Standards 16, 50, and 51 paragraphs, the useful life of assets in use should be reviewed annually, and an effective useful life should be estimated and accounted for as a change in estimates in the accounts. However, Rs.256, 221,539 worth, 1567 fixed asset items were fully depreciated and used from the year 2013 to 31 December 2019, even though their effective lives had not been reviewed according to the standard.	Agreed	Assets that are fully depreciated, but still in use should be reassess their useful life times.
(e)	As per Sri Lanka Accounting Standards 21, any payment should be adjusted according to the applicable foreign exchange rate on the date of making it. An advance of dollar19, 180,692 was paid to a foreign supplier in 2016 for the Badalgama factory project in Gampaha district. While transferring the portion of the advance amount to the work in progress account for the year under review, instead of adjusting the foreign exchange rate as per the date of transaction, it was	Agreed	Any payment should be adjusted according to the applicable foreign exchange rate on the date of payment.

	transferred to the work in progress account as per the year-end exchange rate. Accordingly, Rs. 210,518,165 should have been transferred from the advance account, but due to the transfer of Rs. 217,134,563, an excess of Rs. 6,616,398 had been accounted for in the work in progress account. Also, the 10 percent retention amount has to be transferred to the work-in-progress account as per the foreign exchange rate on the date of the transaction. Accordingly, Rs. 70,172,722 should be transferred, but according to the year-end foreign exchange rate, Rs. 72,378,188 had been transferred to the work in progress account. Therefore, Rs. 2,205,466 more had been accounted for.		
(f)	According to paragraph 2.04 of the loan agreement that the company had with the Department of Foreign Resources for the factory modernization project, the company had to bear all the expenses incurred by the Department of Foreign Resources related to the project, such as the exchange variation. Accordingly, the loan balance due on 31December 2019 related to the above project should be valued and accounted for at the foreign exchange rate at the end of the year in accordance with paragraph 23 of Sri Lanka Accounting Standards 21. Thus, since the adverse effect of foreign exchange rate variation, which should be accounted for as liabilities from 2013 to 2019, Rs.1, 649,291,235 had not been accounted for; the liabilities of the company were understated by an amount equal to that value. Due to this, the 2019 retained earnings had been overvalued. Also, the value of the foreign exchange change of Rs. 302,868,271 was not adjusted in the accounts as of the reviewed year, and the profit of the year was also overvalued by the same amount.	Agreed	The balance of foreign debt payable should be valued and accounted for at the foreign exchange rate at the end of the year.
(g)	As per paragraph 12(e) of Sri Lanka Accounting Standards 36, impairment adjustments should be made for idle machinery. However, Rs.15, 445,587 costing ice cream cone filling machine that handed over to the dairy factory in Digana which purchased in 2014, Rs.104, 177,779 worth yogurt mixing machine purchased on a lease basis on 20 January 2011 for installation in the Colombo	Agreed	Impairment adjustments should be made for idle machinery.

	Audit Observation	Comments of Management	Recommendation
	factory, 4 Milk machines with a total value of Rs.2, 275,000 in the Colombo factory had not been dealt with accordingly.		
(h)	A value of Rs.9, 932,709,286 was agreed and contracted in 2015 to establish the Badalgama Milk Processing Factory in Gampaha District, and Rs. 11,671,726,295 had been spent as at 31 December 2019 and the construction work of the project was currently being implemented. It was estimated that the company would need 400,000 liters of liquid milk per day based on the machine capacity after the completion of this factory, which is currently under construction. At present, it was observed that the Badalgama machines cannot be used at their full capacity as the daily amount of liquid milk that can be collected by the institution for the other 04 active factories, namely Ambewela, Polonnaruwa, Digana, and Colombo, is about 200,000 liters. Accordingly, no impairment adjustments have been made in accordance with paragraph 12 (e) of Sri Lanka Accounting Standards 36 for these installed machines.	Agreed	Impairment adjustments should be accounted for at the Badalgama factory.
(i)	The supplier had sued the company for damages of Rs.40 million as the board of directors cancelled the purchase order for the Uninterruptible Power Supply Unit (UPS) at Ambewela Dairy Factory after awarding it. In that regard, according to paragraph 86 of Sri Lanka Accounting Standards 37, disclosure had not been made in the notes of the financial statements.	It is agreed to provide a relevant letter from the legal manager.	Regarding the Cases filed against the company should be disclosed in the notes to the financial statements.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of Management	Recommendation
(a)	According to Note No. 3 of the company's statement of financial position, the value of the motor vehicles purchased on a lease basis of Rs.48, 000,958 has been transferred to freehold motor vehicles on 31 December 2019 due to the expiry of the lease period. But the accumulated depreciation amount of Rs.48, 000,958 had not been transferred from the leased motor vehicle depreciation to the freehold motor vehicle	It is agreed to adjust and correct the depreciation in the year 2020.	Leased motor vehicle depreciation should be transferred to freehold motor vehicle depreciation at the end of the lease term.

	depreciation on that date		
(b)	In the year under review, in the closing inventory of the head office, it was observed that there were Rs. 4,263,869 worth of unissued packaging materials and Rs 46,162 worth of non-issued general stock. The packaging material has remained unused for a period of 04 to 09 years after the date of the last issue. It was observed that the general inventory was 17 years old, and as this inventory was unusable, its value had been overvalued.	Agreed	Unusable packaging material inventory and general inventory should be disposed of or written off.
(c)	According to the schedule presented with the company's statement of financial position, as of 31 December 2019, the inventory value of the products was Rs. Rs.18, 682,897 in Digana Dairy Factory, Rs. 32,549,875 in Colombo Dairy Factory, and the packaging inventory in Tunip Division was Rs. 10,327,148. But the final production inventory values adjusted in the production accounts of each of those dairy factories were Rs.24,578,706, Rs.66,693,720, and Rs.44,017,045, respectively. Accordingly, a difference of Rs.5, 895,809, Rs.34, 143,845 and Rs. 33,689,897 was observed between the adjusted final product inventory values in the statement of financial position of the financial statement and the production accounts of the dairy factories as of 31 December 2019.	It is agreed to provide correct schedules for the value of the final account statement.	The product inventory value in the statement of financial position should be compared with the product inventory value of the dairy factories.
(d)	According to the financial statements, the interest income of factory employee loan was Rs.6, 818,527. According to the factory financial statements, the value was Rs.5, 554,487, and a difference of Rs. 1,264,040 was observed.	It is agreed to inquire the balances of the factory assistant managers and provide the information.	The factory employee loan interest income as per the financial statements should be reconciled with the factory financial statements.
(e)	According to the renewal notices submitted by the company to the audit, the fixed deposit interest value was Rs.21, 871,329, but in the financial statements of the year under review, the same value was stated as Rs.19, 921,714. Therefore, the interest income is Rs.1, 949,615 less and the dollar deposit interest value to be shown in the financial statements for the year	It is agreed to prepare a schedule again.	Fixed deposit interest and dollar deposit interest value should be reconciled with financial statements as per renewal notices.

	2019 should be Rs. 20,585,179, but according to the financial statements, the value was Rs. 23,178,274. Therefore, it was observed that an excess of Rs. 2,593,095 has been stated in the financial statements.		
(f)	The bank reconciliation statements of the Colombo factory current account number 2065230 of Bank of Ceylon and the Ambewela factory current account number 134-1-001-2-2083302 of Peoples Bank were not submitted to the audit, and according to the balance confirmation letters, the bank balance was Rs. 3,050,801 and Rs. 70,996, respectively.	It is agreed to provide Bank Reconciliation statement.	Bank reconciliation statements should be submitted to audit.
(g)	The value of the dollar deposit, which amounted to Rs.12,662,825, was overvalued because the interest related to the dollar deposit due on 30 June 2020, was debited to the deposit account without being shown as interest receivable and the interest receivable was undervalued by that amount. Furthermore, the interest of Rs.4,097,600 receivable for the long-term fixed deposit balance maturing in 2020 was not shown as interest receivable and was debited to the deposit balance, so the long-term fixed deposit balance was overvalued and the interest receivable was undervalued by that value.	It is agreed that it will be recorded under receivables in the financial statements in the next accounting year.	The interest for the period under review should be accounted for as interest receivable for dollar deposits and long-term fixed deposits.
(h)	It was not possible to satisfactorily check the long outstanding balances due to the fact that an age analysis was not submitted to the audit for the expenses creditors amounting to Rs.424,278,363 and other creditor balances amounting to Rs. 114,908,066 mentioned in the financial statements.	It is agreed to provide the creditor's age analysis again.	Age analysis for expense creditors and other creditor balances should be submitted to the audit.
(i)	There was a provision of Rs.8, 425,296 for income tax penalties in the balance of the provision for taxes, and that has existed since before the year 2000. That balance was not settled.	Even though the necessary arrangements were made for the verification of the balance earlier, no correct reply was received from the Inland Revenue Department. It is agreed that the	Action should be taken to settle income tax penalties.

		necessary arrangements will be made to verify the balance again.	
(j)	Contract deposit balance of Rs.9, 583,244 held at the head office of the company, over 5 years value is Rs.6, 756,059 that is 70.5 percent. The management had not focused on taking those deposits into revenue.	Agreed	Contract deposits withheld should be settled promptly.
(k)	The amount of actuarial loss of retirement benefit, Rs.67, 714,812, had been reduced from the cost of sales. So the value of the cost of sales had been reduced from that amount in the year under review.	Agreed	Retirement benefit actuarial loss should be properly accounted for.
(l)	The amount of Rs.1, 484,000 from 1 year to 13 years included in advances, deposits, and early payments of the Colombo Dairy Factory had not been settled. A credit balance of deposit Rs.150, 000 was offset against the debit balance of the deposit.	Agreed	Action should be taken to settle the balances, which includes advances, deposits, and early payments. Debit and credit balances should not be offset.
(m)	According to the letter No.TO/REV/05/33/06 dated 08 September 2022 of the Director General of the Foreign Resources Department of the Treasury, the commitment charges amounting to Rs.56, 821,121 had been charged on the unused loan balance of the loan given for the dairy factory modernization project. However, the liability was not accounted for in the financial statements.	Agreed	The commitment charges should be accounted for as a liability in the financial statements.
(n)	Under Note No. 14.1 of the financial statements, deferred tax assets amount to Rs.256, 269,701. In calculating the deferred tax assets, the deferred tax asset was undervalued by Rs.1, 693,491 due to not adjusting the inventory provision of Rs.1, 693,491.	Agreed	Inventory provisions related to deferred tax should be accounted for while calculating deferred tax assets.
(o)	It was observed that there was a total difference of Rs.465,989 in nation-building taxes in each factory account of Ambewela Dairy Factory, Polonnaruwa Dairy Factory, and Polgahawela Factory when comparing the nation-building tax	Agreed	The nation-building tax value of each factory account should be reconciled with the nation-building tax

	value included in the financial statement.		value in the financial statement.
(p)	The accumulated depreciation as at 31 December 2019 was Rs 3,214,024,197 as per Note No. 3 of the Statement of Financial Position, but as per the audit, the value on that date was Rs. 3,217,236,716, so there was a difference of Rs. 3,212,519 observed.	Agreed	The accumulated depreciation balance related to property plant and equipment should be accounted for at the correct value.
(q)	The loan balances of the 02 loan programs namely the Dairy Factory Modernization Project and Badalgama New Factory Project as at 31 December 2019 were Rs.5, 685,332,903 and Rs.9, 840,374,273 respectively according to the treasury report. According to the company's financial statements, the loan balances of the Dairy Factory Modernization Project and Badalgama New Factory Project were Rs. 6,632,493,444 and Rs. 11,782,003,429, respectively. Accordingly, there were observed differences of Rs. 947,160,541 and Rs. 1,941,629,156, respectively.	Agreed	The loan balances of the 02 loan programs should be accurately recorded in the statement of financial position by comparison with the Treasury balances.
(r)	According to the letter No. TO/REV/05/33/06 dated 08 September 2022 of the Director General of Treasury Operations Department of the Ministry of Finance, the loan payable balance under the dairy factory modernization project as of the last day of the reviewed year was Rs. 5,476,523,562, but it was Rs. 6,632,493,444 in the company's financial statements. The balance was overvalued by Rs. 1,155,969,882. Accumulated interest payable amounting to Rs. 886,412,722 was also not accounted for, so the accumulated profit and interest payable were understated by that amount. Also the profit of the year under review was overstated by that amount and the interest payable was understated due to non-accounting of Rs.760, 127,701 interest payable related to the year under review.	Agreed	The loan taken for the factory modernization project and the related interest should be properly accounted for.
(s)	According to the financial statements as at 31 December 2019, the cost, addition, and annual	It is agreed to provide schedules of property,	According to the financial statements, the

	depreciation value of property, plant, and equipment are Rs. 9,283,037,804, Rs. 142,023,141, and Rs. 527,623,340, respectively. In the financial statements of the head office, 4 dairies, and Polgahawela cattle feed farm, the sum of those values is Rs. 9,279,686,960, Rs. 141,872,240, and Rs. 527,610,766, respectively, so there was a difference of Rs. 3,305,844, Rs. 150,901, and Rs. 12,574, respectively.	plant and equipment.	cost of property, plant, and equipment, additions, and annual depreciation should be the same as the values of the 04 dairy farms and the Polgahawela cattle feed farm.
(t)	Under Note No. 15.1.4 of the financial statement of the company, the opening balance of the loan obtained from the Treasury was Rs. 17,921,082,356, and according to the schedule, it was Rs. 17,920,826,970. So it was observed that there was a difference of Rs.255, 386 of that balance.	Agreed	According to the financial statements, the correct schedule should be submitted with respect to the bank loan balance.
(u)	Fixed Assets in the Statement of Financial Position: Rs. 6,065,801,089 despite showing a value No physical verification was done in respect of fixed assets, and the company also does not maintain a properly maintained fixed asset register. Therefore, the accuracy of the cost of fixed assets, their existence, the cost of depreciated assets, etc. could not be satisfactorily tested in the audit.	Correct information regarding physical verification of fixed assets can be submitted in the year 2022.	An accurate up-to-date fixed asset register should be maintained by the company.
(v)	According to the financial statements, in the policy relating to property, plant, and equipment did not specify the effective lives of buildings, plant, and equipment, furniture and fixtures, laboratory equipment, motor vehicles, tools and equipment, and office equipment. According to the policies of the company, the useful life of motor vehicles is from 08 to 15 years, but according to the fixed asset register of Polonnaruwa Dairy Factory, it was observed that the useful life of motor vehicles was taken as 04 years and the assets were depreciated. Accordingly, it was observed that the depreciation policy of the company was not specified.	Agreed to be corrected in final account statement.	The company's depreciation policy related to property, plant, and equipment should be specified in the financial statements.
(w)	In the financial statement of 2019, there was a provision of Rs.12, 096,362 for deficient stocks,	It is an existing balance from 1998. Not a	The deficiency should be recovered from those

	and this provision included packaging materials, general stocks, and engineering stocks. Thus, investigations were carried out regarding this deficient stock, and the recovery from the responsible officials was not done, and it was shown by the deduction from the stock. Schedules for that value were also not submitted to the audit by 30 September 2022, which was the date of the audit.	provision placed on a decrease in stock	responsible. Schedules for shortages of inventory should be submitted to the audit.
(x)	Although the balance of trade and other debtors in the Ambewela factory financial statements was Rs. 89,206,616, the total of the debtor age analysis was Rs. 50,992,402. Accordingly, a difference of Rs. 38,214,214 was observed.	Agreed	The trade and other receivable age analysis presented with the factory and company financial statements should be the same.
(y)	The trade debtor balance in Digana Factory financial statements was Rs. 264,324,904, and as per debtor age analysis, it was Rs. 262,523,544. Accordingly, a difference of Rs.1, 801,360 was observed. Out of the presented trade debtor value of Rs. 262,523,544, the value of over 05 years trade debtors was Rs. 6,345,394. The company had made further sales to those customers without taking proper action to recover these debts. Thus, the information about approval for those sales, credit sale limit, debt collection period, etc. was not submitted to the audit.	Agreed	The trade debtor balance in the factory financial statements should be the same as the debtor age analysis.
(z)	In the year 2019, the related approvals and reasons for written-off milk products worth Rs. 47,180,280 and packaging materials worth Rs. 7,978,511 were not submitted to the audit. Further, the files containing the details of the approvals and the details to whom the milk-related products were issued free of charge to the value of Rs. 11,756,219 during the year under review were not submitted for audit.	Agreed .	The relevant approvals and reasons should be submitted to the audit for write-off milk products, packaging materials, and milk products issued for free.
(aa)	Before 2016, Rs. 15,699,277 worth of unused 17,750 kg of milk powder packs were in the Ambewela factory, but they were not identified as obsolete inventory as at 31 December 2019.	Available in stock. About 2000 kilos have been used in the year 2022.	Unused milk powder packs should be identified as obsolete stock.

(ab)	In the year under review, 3 projects costing Rs. 805,860,149 included in the work in progress had been completed, but the values were not capitalized due to a lack of a completion certificate. Furthermore, up to the year under review, Rs. 71,342,562 had been spent for the development project of the Ambewela Dairy Factory included in that balance, and although the project had been completed, the projects also had not been capitalized.	If it is possible to obtain a completion certificate, It is agreed to follow the correct accounting methods and capitalize the balances in the year 2020.	. Completed projects should be capitalized
(ac)	In the Polgahawela cattle feed factory as at 31 December 2019, out of the trade debtor balance of Rs. 3,305,948, the animal feed debtor balance was Rs. 1,122,395, which was 38 percent of the total trade debtor balance. The company had not taken action to recover this debtor balance for 15 years. The balance of transport debtors of Rs.4, 648,463 was for a period of 10–15 years and was 46 percent of the total value of transport debtors. It is observed that the recovery of these loans is uncertain.	Agreed	Action should be made to take proper action to recover the receivable debtor balances.

1.6 Accounts Receivable and Accounts Payable

1.6.1 Accounts Receivable

Audit Observation	Comments of the Management	Recommendation
The trade debtor value of the Colombo Dairy Factory over 10 years was Rs.12, 081,861 and which is 5 percent of the total trade debt value. Action had not been taken by the company to recover the outstanding debt balances and the value between 5-10 years was Rs.15, 075,786 and the value between 1-5 years was Rs.33, 113,941 and these values were 6 percent and 13 percent of the total trade debtor value respectively. Thus it is observed that the recovery of these loan balances is uncertain.	Agreed.	Action should be made to take proper action to recover the balance due.

1.6.2 Accounts Payable

	Audit Observation	Comments of the Management	Recommendation
(a)	According to the head office schedule, the credit balance was Rs.204, 172,625 and the debit balance was Rs.9, 406,733. Out of that creditor balance, the balance between 1 and 5 years was Rs.5, 048,684 and the total creditors balance over 5 years was Rs.7, 008,243. Action had not been taken by the institution to settle the said balance by the end of the year under review.	Agreed.	Action should be taken to settle old payable balances.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions.

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Public Enterprises Circular No. PED/12 dated 02 June 2003			
	Section 6.5.1	Although the financial statements and draft annual report should be submitted to the Auditor General within 60 days after the end of the accounting year, the financial statements of the year 2019 were submitted on 29 June 2022. Accordingly, there was a delay of 850 days.	Agreed.	Financial statements and draft annual report should be submitted to the Auditor General as per Treasury Circulars.
	Section 4.2.6	Performance reports and progress reports should be prepared and submitted, but such reports were not submitted for the year 2019.	Agreed.	Performance reports and progress reports should be prepared and submitted as per as per Treasury circulars.
	Section 5.1.2	The organizational structure and performance indicators that should be included in the corporate plan had not been included in the business plan prepared for 2018 and 2019.	Agreed.	The organizational structure and performance indicators to be included in the corporate plan should be included in the business plan.

(b)	Public Finance Circular No. 01/2014 dated 17 February 2014 Section 5 (2)	The annual budget statement and cash flow statement, which should be included in the prepared action plan and a debt repayment plan for the year, had not been prepared and instead a form containing the details of the debt repaid by 31 December 2019 for the year 2019 was submitted to the audit.	Agreed.	Plans for annual budgeting, internal audits, debt repayment, human resource development and procurement should be included in the action plan.

2. Financial Review

2.1 Financial Results

The operating result for the year under review resulted in loss of Rs.862, 714,548 as compared with the corresponding loss of Rs.683, 449,491. Accordingly, an increase of loss of Rs.179, 265,057 was observed in the financial result. This increase in loss was mainly due to decrease in operating income, increase in administrative expenses, financial expenses and other expenses.

2.2 Ratio Analysis

Current assets ratio, quick asset ratio, gross profit ratio were 1.09, 0.62 and 3.85 respectively in the year under review and the same ratios were 1.35, 0.67 and 1.95 respectively in the previous year. Accordingly, a decline in current assets ratio and quick assets ratio was observed.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	In the year under review, the total current asset value of the company was Rs.2,509,695,611 and the total current liability value was Rs.2,298,345,024. Accordingly, it is observed that the current assets ratio of the company is not at an optimal level. The company had secured a bank overdraft of Rs.600 million from the Bank of Ceylon by pledging the production inventory, packaging inventory and other movable assets of the Colombo factory. Short-term credit facilities of Rs.75 million and Rs.300 million from Pan Asia Bank were obtained by pledging the post-dated checks due from the debtors. Accordingly, it was observed that the company has faced a problem of working capital requirements due to the inability to clear the inventory and debtors included in the company's current assets as required in the short term with this pledge.	Agreed.	The company should maintain working capital requirements at optimum level.

(b)	Fixed deposits of Rs.209,097,006 and Rs.205,000,000 were kept as collateral and an overdraft of Rs.139,500,000 was obtained from People's Bank and Rs.100,000,000 from Pan Asia Bank. Also the company had obtained a loan amounted to Rs.700,000,000 from Bank of Ceylon by pledging USD 2,920,652.78 as collateral from the USD fixed deposit. Another loan amounted to Rs.120,000,000 was also taken from Bank of Ceylon by pledging USD 2,920,652.78 as collateral from the USD fixed deposit.	Comments had not been given.	The company should maintain working capital requirements at optimum level.
(c)	In the year 2017, after the installation of the new machinery of the Ambewela dairy factory under the factory modernization project, all the spare parts provided for future use were piled up in the warehouse without sorting, and by the end of the year 2019, the materials were not included in an inventory register or any other documentation was done.	Agreed.	Spare parts must be entered in an inventory register.
(d)	The Ambewela dairy factory was disconnected from the national power system due to a fault in the transformer and MV panel. The restoration was delayed due to the fact that the company had not entered into an agreement with the contractor related to these constructions regarding the warranty period and maintenance activities. Therefore, an additional cost of Rs.1,884,537 per month and a total of Rs.5,653,612 had to be incurred for the last 3 months of the year under review due to obtaining the required electricity from the generators owned by the company.	Agreed.	A contract should be entered into with the contractor related to the construction with terms of warranty period and maintenance work.
(e)	The company owns 2 lands, the 12-acre land where the Polonnaruwa Dairy Factory is located and another 37-acre land in the same district. But at the end of the year 2019, the company did not have the deeds and title deeds related to these two lands. It was revealed during the physical inspection conducted on 31 December 2019 that the sports club, dairy and cattle shed built on the 37-acre land are currently not being used and more than 15 acres of land is unused for any cultivation or construction.	It is agreed to inspect and submit the documents containing the permission given regarding the land owned by Milco Company from the legal manager.	Efforts should be made to utilize the unused land.

(f)	According to the cabinet decision No. AMP/15/0205/631/012 dated 8 April 2015 for the Badalgama new dairy factory project, a sub loan agreement should be entered with the company and the Treasury, but no such agreement was entered into until 27 October 2022.	Agreed.	According to the decision of the Cabinet, a sub loan agreement should be entered into with the company and the treasury.
(g)	During the year 2014 annual Board of survey of the Ambewela factory, it was determined that 2041 spare parts stock items valued at Rs.6, 041,166 were unusable. But those stock items were kept in the warehouse belonging to the production department as scrap materials even on the date of audit, 18 December 2019, without taking any steps to remove them or auction them.	Agreed.	Unusable stock items should be disposed of or auctioned.
(h)	According to the financial statement notes, although the last year's actuarial gain was Rs.80, 551,142, the profit under comprehensive income was stated as Rs.69, 273,982 and it was observed that the comparative information was not correct due to a difference of Rs.11, 277,160. This change was also pointed out in last year's report but no corrections were made.	Agreed.	Comparable information should be presented accurately in the financial statements.

3.2 Operational Inefficiencies

	Audit Observation	Comments of Management	Recommendation
(a)	Among the capital asset rehabilitation, improvement and purchase of capital assets included in the capital budget document prepared by the institution, the estimated cost of more than Rs.1 million is Rs. 550.12 million worth of expenditure was not planned in the action plan.	Agreed.	Plans for capital expenditure included in the capital budget should be prepared in the action plan.
(b)	When the boiler used for production in Ambewela Dairy Factory's new plant goes down, it removes about 1080 liters of milk worth Rs.74, 206 at a time during cleaning. During the 2 months of October and November 2018, the sample considered, the boiler was out of service on 18 occasions. Accordingly, in two months Rs.1, 335,708 worth of 19,440 litres was wasted in re-cleaning the boiler which is a huge annual loss and necessary measures were not taken to reduce the abnormal downtime.	It is agreed to submit the information to the engineer.	Necessary measures should be taken to minimize abnormal downtime in the new machinery of the dairy factory.

(c)	From July 2017, the Ambewela new milk powder plant had started production, and from that date to 18 January 2018, 720 metric tons of milk powder costing Rs.475.2 million were defective and unfit for human consumption, according to the confirmed laboratory reports of the company. On August 7 August 2018, according to the inspection conducted by the Peradeniya Gannoruva Veterinary Research Institute, this milk powder was suitable to be used as an ingredient for foals. After receiving complaints from customers, 666,075 kg of milk powder stock was still in the warehouse as at 31 December 2019, due to which other operational activities of the warehouse were disrupted, and no disciplinary investigation was conducted regarding this loss.	Agreed.	A disciplinary investigation should be conducted regarding the loss that has occurred and the loss should be recovered from the responsible parties.

3.3 Procurement Management

	Audit Observation	Comments of Management	Recommendation
(a)	According to sub-clauses 1.2.1 (c) of the Code of Procurement Guidelines, bids shall not create or imply restrictions on competition and any interested parties shall be allowed to participate in the bids. Contrary to that, it was observed that the bidders were limited by the conditions of "the entire stock of milk powder must be purchased at once" in the invitation letter for the sale of the stock of 666,075 kilogram of milk powder unfit for human consumption as an ingredient for animal feed, and therefore the above The stock was still in stock as on 31 December 2019.	Agreed.	According to the procurement guideline, competition should not create or be implied to be restrictive.
(b)	For the establishment of Badalgama milk processing factory, a contract value of Rs.9, 718,217,432 (63,935,641 Euros) was entered into with a foreign contract company in 2016 and it was scheduled to be completed in 2019. As at 31 December 2019, Rs.11, 671,726,295 had been spent and the project was being implemented. The contract for the construction of the Badalgama dairy factory was awarded to a foreign construction company outside of the government's procurement guidelines. This project has been implemented as an Unsolicited Project and it is stated under Section 3 of the related Procurement Guidelines Supplement 23 that only projects where	It is agreed to modify some clauses of this.	As specified under section 3 of ssupplement 23 of the procurement guidelines, only projects where contractors with special technical expertise cannot be found shall be executed as a non-bid project, and shall act accordingly.

	contractors with special technical knowledge cannot be found can be implemented as Unsolicited Projects. But since it is possible to find a contractor for the construction of such a factory through international bidding, it was not acceptable that the minimum bid to receive the contracted amount of Rs.9,718,217,432 (63,935,641 Euro) for the construction cost.		
(c)	In order to check the procurement activities under the construction of the office building of Digana Dairy Factory which was started in 2017, the procurement files containing details such as vouchers related to payments, work sheets certified by the engineer and contract agreement etc. were requested, but they were not submitted for the audit. Therefore, it was not possible to check the payments of Rs.10**,** 222**,**824 that had been paid during the year under review.	Agreed.	Details related to payments, vouchers, work papers certified by engineer and contract agreement etc. should be presented to the audit.
(d)	In relation to the Badalgama New Dairy Project, no provision was made for consultancy in preparing estimates for the total cost of Euro 63,935,641. In the year under review, Rs.3, 231,715 was paid to the contractor for the project, of which Rs.1, 000,000 was paid to the company for consultancy. The file related to the selection of the consulting company was not submitted for the audit.	As Milco company was not involved at the time of preparation of this agreement, So Milco company has no knowledge of any non-reservation for such provision.	Selection of consultants should be done in accordance with the government procurement guidelines. The file related to this should be submitted to the audit.