

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Poultry Development Company Private Limited for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, profit and loss statement, 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.

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 2019, 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

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

Non-compliance with reference to the relevant standard	Comments of management	Recommendation
(a) Although the useful life of the non-current assets should be reviewed annually and account by the management in terms of paragraph 51 of the Sri Lanka Accounting standard No. 16, property, plant and equipment which is fully depreciated and being used amounting to Rs.42,113,669 had not revalued and make relevant adjustments as per Sri Lanka Accounting Standard 8.	Fully depreciated property, plant and equipment will be revalued and accounted accurately in the future.	Assets which further used should be revalued and accounted in terms of the standard.
(b) According to paragraph 9 of Sri Lanka Accounting Standard No. 36, when there is an indication for impairment of asset at the end of each reporting period, the impairment assessment should be made to those assets and an impairment loss should be identified. But the animal grinder owned by the company was repaired at a cost of Rs.3,853,490 in 2016. Even though the inactivity remained the same till August 15, 2021, it was observed that Rs.578,024 is charged for depreciation annually instead of provision for impairment.	Food production through the animal feed grinder has stopped because of the high cost of producing food through that machine. The quality of the animal feed purchased from the market cannot be obtained from the above machine. It is proposed to lease in the future as the company will not generate cash flow from that asset.	Value of the asset should be valued at fair value in accordance with the provisions of the standard.
(c) Value of mature coconut trees which generate income of Rs. 10,861,846 during the year under review from coconut and related products, had not been accounted at cost or fair value as per paragraph 45 of Sri Lanka Accounting Standard 41.	Action will be taken to present cost and fair value of coconut cultivation in the financial statements.	Value of the asset should be valued at fair value in accordance with the provisions of the standard.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of management	Recommendation
(a) According to the stock verification report of the Bandirippuwa division, the closing stock of chickens and hens in the year under review was Rs.19,329,896 but according to the final account it was Rs. 16,147,294 and a difference of Rs. 3,182,602 was observed.	There were 04 categories of chickens and hens at Bandirippuwa division and Mawatta division named as 2018/04, 2019/02, 2019/03, 2019/01. Cost for these animals as per board of survey report amounting to Rs.12,799,184 and Rs.6,530,712. This cost includes all expenses incurred per animal. E.g. animal feed, drugs and labor costs.	The inventory should be accurately identified and adjusted to the financial statements.
(b) Although the interest income for the year under review was Rs.3,562,463, it had been recorded as Rs.3,068,141 and thereby net loss for the year had been overstated by Rs.494, 322.	If there is a change in the calculation of interest income, I will correct it in future financial statements.	Interest income should be properly accounted for and proper financial statements should be prepared.
(c) Rs.1,347,099 of immature coconut cultivation which exist prior to 2009 in the statement of financial position had the potential to earn income for the year under review and it had not been brought under the mature coconut cultivation. Accordingly, it was observed that the mature coconut cultivation and its income had understated in the financial statements.	It is true that there are no accurate data for the balance related to coconut cultivation exist prior to year 2009. The relevant documents were missing when this company was commenced in June 2014, But this balance will be correct through the financial statements in the future.	Coconut cultivation which has potential to earn income should be taken under mature coconut cultivation.
(d) According to the statement of financial position, although the total non-current assets should be Rs.91,951,990 as at 31 December 2019. Separately the values that are equal to the sum of those numbers are shown and it has shown as Rs.5,515,455.	Action will be taken to correct non-current assets figure shown in the financial statements in future.	Proper financial statements should be prepared and submitted.

1.5.3 Lack of documentary evidence for the audit

	Subject	Value (Rs.)	Audit evidence not submitted	Comments from management	Recommendation
(a)	Carrying value and provision for depreciation of property, plant and equipment.	80,072,903 2,795,327	Updated fixed assets register.	Action will be taken to maintain accurate fixed asset register in future.	Fixed assets register shouldt be kept up to date.
(b)	Trade and other receivables.	1,235,456	Invoices and balance confirmation letters.	The balance of Rs.1,235,456 shown under trade and other receivables is a balance brought forward from the LANLIB balance sheet. We could not submit the audit as we did not have the relevant information.	Action should be taken to provide relevant documents and balance confirmations for audit.

1.6 Accounts Receivable and Accounts Payable

1.6.1 Accounts Receivable

Audit Observation	Comments from Management	Recommendation
The company had failed to recover receivables include under other receivables amounting to Rs.5,071,910 from National Livestock Development Board for 03 to 05 years and Rs.1,435,456 receivable over 05 years.	Rs. 1,245,785 wort of 17 buffaloes had been given to National Livestock Development Board in order to deduct from receivable balance of Rs.5,071,910. The company has no information for the balance of Rs.1,435,456 and it brought forward from LANLIB balance sheet	Necessary actions should be taken to recover the debt due to the company having a working capital deficit.

1.6.2 Accounts payable

Audit Observation

Even though income tax of any year should be paid at the end of the current year or before the end of next year, Rs.2,017,751 of income tax had not been paid at the end of the year under review.

Comments of Management

Income tax could not be paid on time due poor income of the company. But this amount will be paid in the future before the company is dissolved.

Recommendation

Action should be taken to settle statutory payments such as income tax on time.

1.5.2 Non-compliance with rules, regulations and management decisions

References to laws, rules and regulations etc.

Non-compliance

Comments of the Management

Recommendation

- | | References to laws, rules and regulations etc. | Non-compliance | Comments of the Management | Recommendation |
|-----|--------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| (a) | Paragraph 22 (1) (b) of the Articles of Association of the company | According to the company's article, in selecting the Board of directors of the company, if NLDB has not less than 90% of shares of the company, board of directors of NLDB should be appointed as board of directors of the company. Although 100% ownership is there board of directors had appointed contrary to the article. | The board of directors of the National Livestock Development Board had been appointed as the Board of Directors of the Company from the year 2020. | When appointing the Board of Directors, the action should be taken in accordance with the Articles of Association of the company. |
| (b) | Treasury Circular No. IAI / 2002/02 dated 28 November 2002. | A fixed asset register for computers, devices and software had not been maintained. | Action will be taken to maintain a register of computers, devices and software. | The circular should be followed in respect of fixed assets. |
| (c) | Treasury Circular No. 842 dated 19 December 1978. | The fixed asset register had not been updated. | Action will be taken to maintain an accurate fixed asset register in the future. | The circular should be followed in respect of fixed assets. |

2. Financial Review

2.1 Financial results

The operating result before tax for the year under review was Rs. 15,727,686 as compared with the loss of Rs.16,212,705. Accordingly, there was a growth of financial result by Rs.485,019. The main reason for this growth was the increase in other income.

2.2 Ratio Analysis

The current assets of the company as at end of the year under review amounted to Rs.196,312,414. But ,after deducting the fixed deposits amounting to Rs.28,971,453, the advance of Rs.140,000,000 given on the National Livestock Development Board during the year 2014, a sum of Rs.5,071,910 spent during 2015 , the net value of the assets amounted to Rs.22,269,051. The value of current liabilities of the company amounted to Rs.59,220,616 and the current asset ratio was 0.38 and the liquidity asset ratio was 0.09. As such it was observed that the company is lacking working capital. As per the above, the value of current assets and current liability of preceding year were Rs.16,619,809 and Rs.70,498,011 respectively. It is observed that current asset ratio was 0.23 and the liquid asset ratio was 0.09. Furthermore the gross profit margin was 16 percent in 2018 and 3 percent in 2019.

3. Operational review

3.1 Management inefficiencies

Audit Observation	Comments of Management	Recommendation
(a) Although the Board of Directors has decided to terminate the project of laying hens due to the fall in egg prices as per the Board Decision No. 2017/08/04 dated 17.08.2017. Report had not been presented to the audit regarding proper cost analysis, market analysis and risk analysis.	The project related to laying hens was completed as per the board decision dated 11-08-2017.	Proper cost, market and risk analysis should be performed before the project is completed.
(b) The gross profits earned by this project for the years of 2016, 2017, and 2018 were Rs.5,362,159, Rs.1,186,091 and Rs.4,040,320 respectively and gross profit ratio of this project for the same years were 39.67% , 5.69% and 21.01% respectively. It was observed that though this project has a potential to earn an average monthly gross profit of Rs.294,126 for 3 years, termination of the project would reduce the company's investment	We do not have a market analysis, risk analysis or any related report and it is clear from the market situation or progress reports that they made the decision at that time.	Proper cost, market and risk analysis should be performed before the project is completed.

portfolio and increase the company's risk of losses.

(c)	It was observed that part of the coconut, mango, king coconut and teak trees cultivated in 330 acre in the farm had not been counted and no census report was maintained.	A census of 204 teak trees in Bandirippuwa division had been completed. A section of teak trees in Mawatha section also had been counted. Action will be taken to obtain a census reports for all other trees as well.	Action should be taken to conduct a census and reports should update accordingly.
-----	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------

3.2 Operational Inefficiencies

	Audit Observation	Comments of Management	Recommendation
(a)	During the physical inspection of the farm about 110 king coconut trees were observed and the company's king coconut income was Rs.5,770 for the year under review, while the annual income per tree was less than Rs.52. It was also observed that the accuracy of income could not be verified and the present value of the king coconut trees that contributed to the income were not identified as an asset in the statement of financial position.	Even though there are number of king coconut trees in the farm, from those only a few trees are important to earn income.	Action should be taken to introduce systems and controlling methods to get the maximum yield from company's resources.
(b)	It was observed that although there was a potential for selling king coconut through the farm-owned outlets, the products were not deployed in such a way to enable the company to earn a favorable higher income.	Coconut mite infestation has damaged the king coconut trees and treatment had been done for that. Yield had been obtained from rest of the trees.	Action should be taken to introduce systems and controlling methods to get the maximum yield from resources of the company.
(c)	Mawaththa farm has an area of 330 acres and coconut had been cultivated mainly. It was observed that the assets of the company had not been properly maintained to earn a higher income due to those areas have no under cultivation and improper application of fertilizers.	Coconut cultivation is spread over an area of only 250 acres only. Now, the forest had been cleared and area of 15 acre had been converted into a revenue generating area completely. Manure received from poultry and sheep is applied to the coconut trees on the farm. Manioc had been grown as under cultivation in suitable areas.	Action should be taken to introduce systems and controlling methods to get the maximum yield from company's resources.

(d)	It was observed that there was a deficiency of 72 egg trays and 283 bags of 5 kg animal feed in the laying hen unit and boiler section as per Board of Survey Report of 2019. Action had not been taken in this regard and the loss was not deducted against the income statement.	Action will be taken in the future.	Action should be taken to introduce systems and controlling methods to safeguard resources.
(e)	It was observed that the revenue for the current year had decreased by 17 to 100 percent compared to the previous year.	In 2019, the company's revenue level weakened due to lower poultry prices, lower production and lower coconut prices.	Action should be taken by the management to increase the revenue.

3.3 Procurement Management

	Audit Observation	Comments on management	Recommendation
(a)	During the period from 2013 to 2019, the same company had been selected on three occasions to renovate the tank in the farm owned by the company. On two occasions, agreements were reached to implement the project, but the company did not have any evidence to support the implementation of the project.	Although a contractor was selected before 2016, unable to provide information to the audit as the company did not have information on whether or not the project would be operational.	The company should have the evidence relating to implementation of the project.
(b)	No evidence was presented regarding whether selected the contractor as per Procurement Guidance for 02 situations 2019 to 2013.	Although a contractor was selected before 2016, unable to provide information to the audit as the company did not have information on whether or not the project would be operational.	The company should have the evidence relating to implementation of the project.
(c)	Although the Board of Directors had approved the report No. 35 on 08 September 2017 for the renovation of the tank for freshwater fish farming at Dankotuwa Mawatta farm and to obtain additional income from the extraction of the soil and silt removed from it, before obtaining that approval an agreement had signed between the chairman and the Italian Lanka Real Estate Company on 9 October 2016 for this project.	Procurement activities are done through a tender committee consisting of officers of the entity approved by the Board of Directors of the Company.	Should act in accordance with the procurement terms of the government.

- (d) Prior to the implementation of this project, the Company, in accordance with Chapter No. 2.3 (a) of the Procurement Guidelines, has applied for an Environmental and Social Impact Assessment and the Bureau of Environmental Permits, Geo and Mines, and made pre-procurement arrangements to the agencies. It was revealed that the relevant contractor had obtained the recommendations of the Geological Survey and Mines Bureau from the Central Environmental Authority without acting accordingly.
- Environmental recommendation and excavation permit should be obtained by the tenderer; therefore institutions had not applied for that.
- Should act in accordance with the procurement terms of the government.
- (e) It was observed that the excavation permit had stated that the state should pay 4 percent and that a document containing the relevant information should be maintained at the work site, but it was observed that those requirements had not been complied with.
- The state share is 4 percent to be paid by the contractor, Italy Lanka Real Estate Company Private Limited.
- Should act in accordance with the procurement terms of the government.
- (f) Although quotations called for bids through newspaper advertisement, quotations had been called for bids from companies and 36 individuals under shopping method before the newspaper advertisement could be answered. The reasons for the calling bids from contractor who was selected in two occasions earlier and calling quotation using two procurement methods were not clear.
- Bids are invited through both the newspaper advertisement and the shopping method, with the aim of competitive bidding by a large number of buyers.
- Should act in accordance with the procurement terms of the government.
- (g) According to chapter 4.3 of the Procurement Guidelines, a pre-procurement cost estimate had not been prepared and the value of the procurement and the amount of soil and silt to be excavated from the tank had not been determined. If the average value of soil and silt in the contract is calculated by the maximum number of removable cubes, the estimated value would be Rs.40,625,000 were observed.
- Removal of all soil and mud is done by signing orders issued under a field supervisor.
- Should act in accordance with the procurement terms of the government.
- (h) According to chapter 2.7.5 of the Procurement Guidelines, the company's procurement committee should include the chairman as its company's head and one member should be a Senior Assistant
- Procurement activities are done through a tender committee consisting of officers of the entity approved by the Board of Directors of the Company.
- Should act in accordance with the procurement terms of the government.

Secretary to the Line Ministry or a similar level of Director. Instead, the company appointed a procurement committee and had implemented the procurement process.

- | | | | |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| (i) | Although the Technical Evaluation Committee was to be appointed by the head of the company to assist the Procurement Committees appointed by the company in accordance with 2.8.4 of the Procurement Guidelines, the Procurement Committee had also taken technical decisions and It was not confirmed whether the right decisions had been made on technical matters. | Answers had not provided. | Should act in accordance with the procurement terms of the government. |
| (j) | Tank had reconstructed by removing maximum of 25,000 cubes of silt, without determine the depth, length and width of the proposed tank and the amount of soil and silt to be removed through Technical Evaluation Committee and obtaining the recommendations of the Central Environmental Authority and the Geological Survey and Mines Bureau. The reason had not presented to the audit. | Answers had not provided. | Recommendations should be obtained from the Central Environmental Authority and the Geological Survey and Mines Bureau regarding excavations. |
| (k) | All bids submitted by bidders were submitted without the signing date and all bids were received on the last day of the bidding but the time of receipt was not noted. Out of 10 bids, 5 bids should be rejected due to unavailability of signature of the bidder. However, it was observed that evaluations had done without doing so. | Answers had not provided. | Should act in accordance with the procurement terms of the government. |
| (l) | According to chapter No. 5.3.11 of the Procurement Guideline, it was required to obtain bid securities for this procurement, but this was not done and the bidder who had offered the highest bid for the sale of soil and silt was offered the bid. Bidder later declined to accept and the company had also lost the opportunity to recover through bid security and deposit. | Answers had not provided. | Should act in accordance with the procurement terms of the government. |
| (m) | The company did not have the excavation and transport permits issued to the contractor by the Geological Survey and Mines Bureau. It is observed that the company had not properly supervised the | The agreement states that vehicle licenses and excavation permits should be obtained by the contractor himself. Photocopies of these licenses are in the | The excavation license issued by the Geological Survey and Mines Bureau should be maintained |

- | | | | |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| | operation of the project as company had not certified that the relevant contractor had obtained those and act upon. | possession of the company. | within the company. |
| (n) | The embankment of the widened tank was not properly prepared and the soil was eroded in various places and the coconut trees and the access road to the farm were also damaged. | Broken areas on the access road had been repaired. | Projects should be implemented effectively with proper supervision |
| (o) | According to the condition number 09 of Industrial Mining Permit No. IML/B/HO/13414 dated 14 October 2019 issued by the Geological Survey and Mines Bureau, the boundaries of the land approved for excavation should be marked with concrete pillars and maintained until the completion of the excavation work ,but had not been act accordingly. | Although the boundaries around the lake were marked during the expansion of the lake, some of the boundaries had escaped due to the rainy weather at that time. But there were some pillars that marked the boundaries. Expansion of the tank had been carried out subject to the grid numbers included in the permit issued by the Geological Survey and Mining Bereau. | Should comply with the conditions of the Industrial Mining Permit of the Geological Survey and Mines Bureau. |
| (p) | On several occasions from 2013 to 2019, until the tank was rehabilitated, only the mud and soil of the tank were sold and it was not observed that the water of this tank was used for farming. | Currently, the tank water is being used for the newly started buffalo project. One of the objectives is to launch a freshwater fisheries project in the near future. | Systems and control method should be introduced to get the maximum benefit out of the company's resources. |

3.4 Human Resource Management

3.4.1 Dismissal and Recruitment of service

The service of the officer who had been appointed as the Assistant Manager (Finance) was terminated on 31 August 2019 and the following matters were observed in this regard.

Audit Observation	Comments of management	Recommendation
(a) This industrial dispute was settled at the District Labor Office on October 2, 2019, and the re-employment was contrary to the observations of that Labor Tribunal.	As per this agreement, two parties settled this labour dispute at the District Labour Office on 02.10.2019. Accordingly, the Assistant Manager (Finance) was reinstated on 08.10.2019. Therefore, the ministry had not taken any action regarding the suspension. Assistant Manager (Finance) recruited on	Shoud act in accordance with the observations of the Labor Tribunal.

- (b) According to letter dated 05 September 2019 of chairman, permanent appointment had given to a new officer to the post of petitioner officer 05 days after the termination of the service without any call or interview on 31 August 2019 subject to a period of 3 years' probation from 15 September 2019.
- Should act in accordance with the Establishments Code and recruitment procedures.
- (c) The company had to bear the cost of additional wages and salaries of Rs.617,500 for 9 months and 14 days, which caused a financial disadvantage due to the fact that new appointments have been made to the post before it is confirmed that the post is permanently vacant
- Should act in accordance with the Establishments Code and recruitment procedures.
- (d) The three main posts of General Manager, Manager (Farm) and Supervisor (Farm) are vacant 2 years and 1 month from 2018 to 30 January 2020, 8 months in 2019 and 5 months in 2020, 1 and half months from 2018 and 8 months in 2019 and 5 months in 2020 respectively had not been taken up for recruitment. It is questionable that the post of Assistant Manager (Finance) had been filled only for the vacant posts.
- Should act in accordance with the Establishments Code and recruitment procedures.