

Mahaweli Livestock and Agro Enterprises (Private) Limited Company - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Mahaweli Livestock and Agro Enterprises (Private) Limited Company for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 and the Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year 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 read 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 financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and its financial performance and 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 based on 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 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, and for such internal control as 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 Company.

1.4 Responsibility of Auditor's regarding the Audit of Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is 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 statements 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;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources 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 the Preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Company is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliance with Sri Lanka Accounting Standards for Small and Medium Sized Entities

Reference to the Non-compliance to the Relevant Standard	Comments on Management	Recommendation
(a) Although the changes in the inventory should be presented separately in the face of the Cash Flow Statement as per Paragraph 7.4(a) of the Sri Lanka Accounting Standards for Small and Medium Entities, the inventory changes of Rs.174,891 had not been stated in the Cash Flow Statement separately.	Inform that this will be rectified in next year.	Actions should be taken to rectify the cash flow statement.
(b) Gratuity payment of Rs.308,700 that should be considered as the cash outflow in the cash flow statement as per Paragraph 7.4(d) of the Sri Lanka Accounting Standards for Small and Medium Entities, had not been included in the Cash Flow Statement.	Inform that this will be rectified in next year.	Actions should be taken to rectify the cash flow statement.
(c) Although the land and building were purchased together as per Paragraph 17.8 of the Sri Lanka Accounting Standards for Small and Medium Entities, those were separable assets and, accounting	Inform that this will be rectified in next year.	Actions should be taken to rectify the cash flow statement.

also should be separately. But, the land and building of the Company at cost of Rs.62,631,504 had not been accounted separately.

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| (d) | According to the paragraph 17.19 of Sri Lanka Accounting Standards for small and medium sized Entities. Although 23 vehicles that owned by the Company with cost of Rs.7,800,562 had been fully depreciated as the life time of non-current assets was not reviewed annually, it had been used further. Accordingly, action had not been taken to rectify the estimated error occurred. | Inform that required actions will be taken to revalue in the next year. | Actions should be taken to rectify the cash flow statement. |
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1.5.3 Accounting Deficiencies

The following observations were made.

Audit Observation	Comments on the Management	Recommendation
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(a) The gross profit had been over stated as the inclusion of closing capital biological inventory of Rs.9,186,655 when calculating the cost of sales.	Inform that it will be rectify in the next year.	Financial statements should be prepared accurately.
(b) The cost or revaluation value of a generator that is being used currently and included in the Fixed Asset Register had not been included in the Financial Statements.	Inform that this generator will be included to the Assets Register by revaluing.	-Do-
(c) The changes in the values of trade and other payable that should be included in the working capital changes in Cash Flow Statement, should be stated as a cash outflow, Rs.4,621,555 had been stated as a cash outflow. However, it was observed that the changes in the values of total trade and other payables in year 2020 as per financial statements was Rs.6,611,261.	Inform that it will be rectify in the next year.	-Do-

- (d) Although the farms in Nirawiya, Thunkama, Kanthale, Siddapura and Muthuwella that owned to the Company had been handed over to the Mahaweli Authority during the period of 2005-2010 without exchanging the proper written documents, 164 buildings and fittings with cost of Rs.25,073,083, 26 vehicles, 45 office equipment, 66 machineries and generators and 260 furniture and fittings that owned by those farms had been included in the Company's accounts further more. The annual depreciation of Rs.1,873,629 related to those assets had not been accounted and, it could not be verified the physical existence of those assets as either Company or Mahaweli Authority had not been done verifications regarding the physical existence of them.
- The assets in the farms that were out of control of the Company were not owned by the company and, the depreciation related to those assets were not done as the company did not use and there was no contribution from these assets to the company's functions. The details in relation to the handing over of these assets to the Mahaweli Authority were reported and, no advices received until now. It was informed that actions will be taken to hand over those assets on the advices given by the Mahaweli Authority.
- Actions should be taken to settle the assets immediately.

1.5.4 Suspense Account

Subject	Amount	Period of Suspense	Comments on Management	Recommendation
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	Rs.			
The balance of suspense account of Rs.3,512,504 had been stated under the debtor balances and, it was observed that the balances of rs.2,047,972 out of it were prevailed since year 2017.	3,512,504	03 years	It was difficult to analyze the information relation to this balance. It was informed that it will be rectified in the next year.	Actions should be done to clear the suspense accounts immediately.

1.5.5 Written Evidence not made available for the Audit

The following observations were made.

Subject	Amount	Audit Evidence not made available	Comments on Management	Recommendation
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	Rs.			
(a) <u>General Reserve</u>				
(i) Mahaweli Economic Agency	403,918,731	Evidence that can be verified the value	These balances were the investments that had been done at the period where prevailed as the livestock development division. Although these investments should be translated into the capital of the company after livestock development division becoming the company, these balances were remained for a longer time as the same names in the accounts of the livestock development division as there was no a company share issue in Mahaweli Authority. Therefore, the company has no documents related to those balances.	Required arrangements should be made to obtain the balance verification directly to the audit and, actions should be taken to clear.
(ii) Kothmale Dairy Development Fund	2,900,000			
(iii) Capital Grant of European Economic Commission	3,583,706	Documents related to account as capital grants		
(iv) Foreign Aids	5,729,782			

(b)	Nation Building tax payable	285,185	} Balance confirmations and tax certifications	The files of Nation Building tax and Value Added tax were inactive. These balances should be written off.	-Do-
(c)	Value Added tax Payable	2,991,095			
(d)	Balance Payable to Department of Animal Production and Health	165,600	Balance confirmations	The balance of payable to Department of Animal Production and Health was a balance brought forward from year 2003. It was informed that this will be written off in next year.	-Do-
(e)	Advance receivable	220,092	Balance confirmations	This was transaction occurred until year 2009 and, the balances were prevailed 2009 onwards.	-Do-
(f)	Balance of Damminna Inter Farm	818,177	Balance confirmations	Actions will be taken to rectify this in next year.	-Do-

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observations were made.

Audit Observation	Comments of Management	Recommendation
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(a) Receivable for livestock inventory of Rs.5,820,430 that owned to Nirawiya farm that handed over to the Ministry of Irrigation and Water Resources Management in year 2010 had not been recovered even by the end of the year under review.	It was informed that actions will be taken to recover this balance in the next year.	Action should be taken to recover the receivable balance promptly.

- (b) Although the debtor balance of Mahaweli Livestock an Agri Business (Private) Company as per financial statements of “H” Zone of Mahaweli Authority was Rs.5,373,970, the debtor balance as per financial statements of the company was Rs.5,820,430. Accordingly a difference of Rs.446,460 was observed. This balance of Rs.446,460 was the value of production material and products that belonged to the farm, when handing over the farm to the “H” Zone. Steps should be taken to settle the payable balance immediately.

1.6.2 Payables

Audit Observation

According to the salary amendments done in the year 2015, salary arrears payable of Rs.6,893,711, contribution amount payable to Employee Provident fund and Employee trust Fund of Rs.18,927,439 and Rs.611,083 respectively from year 2013 to 2020 had not been paid. Rs.11,830 had been paid to the Employee Trust Fund as surcharges in the year under review.

Comments of Management

It was informed that it will be start to pay installments in next year.

Recommendation

Steps should be taken to pay the payable balance immediately.

2. Financial Review

The operating result of the year under review was a loss of Rs.5,793,005 and, the corresponding loss in the preceding year was Rs.4,663,530. Therefore a deterioration of Rs.1,129,475 in the financial result was observed. Non-restructuring of the business activities of the Company had been a reasoned for this deterioration.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

According to the Memorandum of Association of the Company, the stated capital was consisted of 5,000,000 share of Rs.10 each and, though only 03 shares were issued to the pioneer directors, the other shares were not issued until 31 December 2020. The issued 03 shares were given to 03 directors of the other private company and, any share of the company had not been given for the ownership of the Mahaweli Authority.

Comments of Management

It was informed that actions will be taken to retake the issued 03 shares to the company in the next year and, actions will be taken by discussing with Mahaweli Authority to issue share for the ownership of the Sri Lanka Mahaweli Authority.

Recommendation

Actions should be taken to issue shares to the Sri Lanka Mahaweli Authority.

3.2 Operational Inefficiencies

Following observations were made.

Audit Observation -----	Comments of Management -----	Recommendation -----
(a) Even though 12 main objectives had been indicated in the Memorandum of Association of the company, the actions related to the cultivations in company's farms, poultry farming at wholesale and retail, manufacture of poultry feed required for farmers, breeding, selling, improving, processing and exporting of animals such as cattle, pigs, poultry etc. and caring on business activities associated with fruits and cereals had not been done and only the buffaloes, mulch cows, poultry pigs and goat husbandry on a small scale and activities of dairy products were being functioned.	As there was no a capital capacity belonged to the company for the implementation of matters stated in the Memorandum of Association, the background required to act as a public-private partnership had been prepared. It was informed that action will be taken to done the activities after implementing this.	Necessary action should be taken to achieve the objectives set out in the Memorandum of Association.
(b) Although 04 vehicles amounting to Rs. 3,162,812 own by the Sri Lanka Mahaweli Authority and Lands of head office of the company is located in Dematagoda area own by the Mahaweli Authority currently use by the company that shown as Rs.14,929,159 under fixed assets in the Financial Statements of the company, no action has been taken to acquire those assets.	It was informed that actions will be done this in the next year.	Actions should be taken to settle the assets promptly.
(c) When comparing the actual production with the target production under the activities implemented in Livestock division as at the end of the year under review, it was at a lower level as boiler chicken production 44 percent, pork production 3 percent, rearing goats 10 percent, and rearing buffaloes 6 percent.	The animal production division should be restructured totally. As there are no deep freezer facilities, the production of meat was at a lower level. It was informed that these issues will be solved after restructuring as the public-private partnership.	Required actions should be taken to achieve the targeted production.

- (d) The dairy productions had been done from the machineries used since 1986 which was commenced the dairy processing unit in the Giradurukotte farm and, the issues related to health safety of the products due to matters such as broken floor tiles in the factory, damaged roof and leakage of rain water in to the factory and damaged drainage and weak internal cleaning system had been arisen. The construction of newly factory was stated in the public-private partnership investment report. It was informed that this work will be done after implementation of this agreement. Steps should be taken to correct the sanitation problems which arise during the production.
- (e) When giving company's lands under the seasonal rent method in Maha season 2020/21 for the construction of maze, the selection of farmers and deciding rent money should be done by a committee and, the Director General of the Authority had given approval to use these money from the rent to purchase a deep freezer container for storing meat and renovation of boiler squares. However, the selection of farmers and deciding rent money had not been done by above committee and, the earned money was retained in the current account of the company by the date of the audit. Sri Lanka Mahaweli Authority charged these rent money Rs.1,000 per a hectare and, later given without charge. However, actions had been taken by the Board of Directors to give these lands at a maximum price that can be given as a company. (an acre for maze cultivation at Rs.5,000, an acre for paddy cultivation at Rs.8,200 were given).

3.3 Idle or Under Utilized Property, Plant and Equipment

Audit Observation	Comments of Management	Recommendation
(a) Although 57 buildings that constructed on year 1986 and owned to Giradurukotte animal farm were revalued and taken into the accounts, 07 buildings out of it had not been used as they were dilapidated totally.	It was informed that actions will be taken to write off 07 dilapidated buildings in future.	Measures should be taken to correct the values in the financial statements.
(b) The constructions including cattle sheds, goat sheds by spending Rs.12,501,900 in the years 2014 and 2015 with the aim of converting the Giradurukotte animal farm belongs to the company into animal rearing	Although the training centre constructed by "C" Zone was handed over to the company, the company does not have capital capacity to	The methodologies should be made to use these constructions.

training centre had been handed over to the company by “C” Zone in Mahaweli Authority on 08 February 2016 by valuing to Rs.8,967,600. As there was no any specific plan or methodology to use these constructions, these assets had been remained idle from the day of handing over.

purchase animals for this. Thus, it was informed that these buildings will be used by purchasing animals after commencing the public-private partnership.