

Sri Lanka Poultry Development Company Private Limited - 2020

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Poultry Development Company Private for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

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

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

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

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

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

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

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

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

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

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company

- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resource of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with reference to the relevant standard	Comments of management	Recommendation
(a)	The Rs.1,347,099 immature coconut plantation balance in the statement of financial position existed before the year 2009, and no evidence was presented in this regard. In the year under review, an income of Rs.16,139,300, or a contribution of 28.07 per cent of the income, was made from coconut and related products. The value of these mature coconut trees was not assessed at cost or fair value and was not accounted for as a mature plantation in accordance with Section 45 of Sri Lanka Accounting Standard 41. Also, according to Sri Lanka Accounting Standard 16, the depreciation of the year under review was also understated due to the non-recognition of the depreciation for the value of these mature coconut trees.	Prices were called for the census of coconut trees. The value of the said trees shall be assessed at cost or fair value and accounted in accordance with paragraph 45 of Sri Lanka Accounting Standard 41.	As per the provisions of the standards, the value of mature coconut trees should be assessed and accounted for at cost or fair value and recognized in depreciation accounts for the value of mature coconut trees.
(b)	The company had failed to recover the balance included in trade and other receivables, which amounted to Rs. 3,308,760 due from the National Livestock Development Board, Rs. 216,500 due from tanker project income since 90 days, and Rs. 1,435,456 included in other receivable balances that are more than a year old. An age analysis was not submitted to the audit regarding these balances and no impairment adjustments were made for trade and other receivables as per Sri Lanka Accounting Standard No. 36.	The amount of Rs.216,500, which is the balance due from the Tanker project stated in the 2020 financial statement, was received from the said institution on 12.02.2021. In the balance of other receivables, other receivables of Rs.786,862 and sales receivables of Rs.149,844 are balances coming from the balance sheet of LANLIB Company, and the company does not have the relevant documents for those values. The balance of advances and deposits of Rs.498,750 includes Rs.100,000 as a deposit in the Electricity Board and Rs.100,000 in deposits at the Jayakodi filling station.	Impairment adjustments for trade and other receivable balances should be assessed as per the provisions of the standard.

- (c) According to paragraph 9 of Sri Lanka Accounting Standard 36, at the end of each reporting period, when there is an indication of asset impairment, an impairment assessment should be carried out for those assets, and the impairment loss should be identified. But the animal grinding machine belonging to the company, which was repaired at a cost of Rs.3,853,490 in 2016, has been idle since 05 June 2022. It was observed that even though it was already idle, instead of allocating the related losses, provided depreciation amounted to Rs.578,024 annually.
- Machine was remained idle because raw materials are scarce in the market, prices are high and also, because of the extra labour cost. Thus it was more advantageous to buy food from outside than to produce it. But according to the current situation in the country, it will be decided in future to provide the machine on rental basis or produce food. Annual depreciation of Rs.578,024 is provided for this machine.

1.5.2 Accounting deficiencies

Audit Observation	Comments of management	Recommendation
(a) Action had not taken to write-off cinnamon balance amounted to Rs.212,765 at the end of the year under review and which was remain as an opening balance in previous year.	In the year 2017, a cinnamon plantation was started by spending Rs.212,765. Since there was a severe drought at that time, the cinnamon plants were destroyed. Action will be taken to write-off in the next financial statement.	Plantation should be correctly identified and reconciled to the financial statements.
(b) The closing stock of the year under review should include Rs.274,496 stocks of coconut, eggs and fertilizers were omitted from the closing stock, therefore the profit and the closing stock were less than that value.	Action will be taken to correct by next financial statements.	Inventory should be properly accounted for and financial statements should be prepared.
(c) The depreciation allocation of Rs.2,613,904 and the written value of property, plant, and equipment in the financial statement amounted to Rs.77,458,999 could not be ascertained during the audit due to not maintaining the fixed assets register up to date. Also, the audit could not confirm whether the value of the Mawatta farm building is included in the building value of	Along with the process of dissolution of the company, the fixed assets register will also be updated in future. It is informed that an accurate fixed assets register can be maintained after that. In the letter issued by the Valuation Department on 07.12.2011, under buildings and other constructions, the value is mentioned as Rs.21,000,000. Since all the buildings were assessed on that day, it can be assumed that the value of the Mawatta farm building is also	Fixed assets register should be updated and maintained.

Rs.21,000,000.

included in that value. However, at present, it is informed that an accurate fixed asset register can be maintained after the company's dissolution process.

- (d) For the building located at Barnes Place that belongs to the company, the value of which was Rs. 22,500,000, Rs. 1,125,000 had not been accounted for as depreciation, and the value of the house had not been taken to fair value in the financial statements.. Although an officer currently resides in this house, the rent income related to it was not recognized in the financial statements.
- The value of the house is shown under property, plant and equipment in the balance sheet. The land is not owned by the company. In the letter issued by the Valuation Department on 31.10.2011, the value has been mentioned as Rs.22,500,000. That value has been included in the financial statement by the audit institute of Shantha Adhikari in 2014. But no depreciation was accounted for and the reason for that cannot be traced. The said institution was currently closed. But since the company will be dissolved in the future, It is informed that an accurate fixed asset register can be maintained in the future.
- The assets owned by the company should be presented accurately in the financial statements.
- (e) As per paragraph 51 of Sri Lanka Accounting Standard 16, the effective life for non-current assets should be reviewed annually by management and adjusted in the financial statements. Although the fully depreciated property, plant and equipment costing Rs.35,697,784 were still in use, the relevant assets were not revalued and necessary adjustments were not made as per Sri Lanka Accounting Standard 8.
- Action will be taken to revalue the assets and maintain an accurate fixed asset register in accordance with Sri Lanka Accounting Standard 8.
- As per the provisions of the standard the useful lives of assets should be reviewed annually by management and adjusted in the financial statements.

1.6 Account receivable and payable

1.6.1 Account receivable

Audit Observation	Comments of management	Recommendation
The National Livestock Development Board took over the company in the year 2014 and according to a request made on 08 July 2014, an advance of Rs.140,000,000 was given to the parent company and till now the advance amount has not been recovered.	At the time of acquisition of the company in the year 2014, an amount of Rs.140,000,000 was given to the National Livestock Development Board as repayment to the company. The amount has not yet been received. Since the dissolution of the company is going on, appropriate action will be taken for that.	Action should be taken to recover the advance amount.

1.6.2 Accounts payable

Audit Observation	Comments of management	Recommendation
Under trade and other payable balances, Rs. 1,608,099 payable to Welisara farm belonging to National Livestock Board and payable to Siringapata Farm Rs. 17,298 balances were not included under trade and other receivable balances in those farm accounts. The balance payable to the head office of the National Livestock Board was stated as Rs. 43,495, but the balance due in the accounts of the National Livestock Board was Rs. 1,110,500. There was a difference of 1,067,005 and action had not taken to investigate the differences in those balances and settle it.	I inform you that the values of Rs.1,608,099 for the Welisara farm and Rs.17,298 for the Siringapatha farm, which are due to the farms of the National Livestock Development Board, given under trade and other payable balances are correct. The institution has the relevant documents for that. It can be submitted for audit if required. And those values should be indicated under trade and other receivable balances in the financial statements of those farms.	Differences in trade and other payable balances should be investigated and settled.

1.7 Non- compliance with rules, regulations and management decisions

Reference to laws, rules and regulations etc.	Non compliance	Comments of management	Recommendation
(a) Treasury Circular No. IAI/2002/02 dated 28 November 2002	A fixed asset register was not maintained for computers, equipment and software.	Maintain a fixed asset register of computer equipment and software as per the Treasury circular.	Action should be taken as per the circular regarding Fixed assets.

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| (b) | Treasury Circular No. 842 dated 19 December 1978 | Fixed asset register was not updated. | Maintain a fixed asset register updated as per Treasury circular. | Action should be taken as per the circular regarding Fixed assets. |
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2. Financial Review

2.1 financial result

Operating profit before tax for the year under review was Rs.11, 455,253 and the corresponding last year loss was Rs.15,727,686. Accordingly, an increase of Rs.4, 272,433 was observed in the financial result. This growth was mainly due to the decrease in selling and administrative expenses.

2.2 Ratio Analysis

Current assets ratio, quick assets ratio, gross profit ratio were 3.26, 3.09 and 14.17 respectively in the year under review and the same ratios were 3.31, 3.03 and 3.44 respectively in the previous year. Accordingly, a decline in the current assets ratio was observed and an increase in the gross profit ratio was observed. This is due to the decrease in cost of sales.

3. Operational Review

3.1 Management inefficiencies

Audit Observation	Comments of Management	Recommendation
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| (a) | Before establishing this institution as a company, the company called LANLIB (LANLIB) from 2009 to 2013 unpaid Rs. 25,932,371 tax liability is shown in the financial statements of the year under review and the total tax payable in the document submitted for audit is Rs.26,231,425 and there was a difference of Rs. 299,054. The relevant tax liability is a balance that has existed for more than 07 years and since the relevant tax liability was not settled even at the end of the reviewed year, this had an adverse effect on the existence of the company. | Lanlib's (LANLIB) tax liability of Rs. 299,054 was paid to the Inland Revenue Department. That is the difference in the document. I would like to inform you that the necessary activities to settle this tax liability are ongoing these days. | Action should be taken to settle the relevant tax liability. |
| (b) | The value of the mango trees in the farm was not valued and taken into account and the income from those trees in the year before the year under review was Rs. 27,755 but no income was shown in the accounts during the year under review. | In the years 2019 and 2020, the productivity of mangoes has decreased due to reasons such as non-pruning of mango trees, not applying fertilizers properly, and minimal knowledge of trained officials. | The income of the company should be correctly identified and shown in the financial statements. |

3.2 Operational inefficiencies

Audit Observation	Comments of Management	Recommendation
(a) Chicken sales revenue, Kollupitiya sales centre revenue, egg sales revenue and chicken sales revenue in the previous year were Rs. 9,201,740 had been earned, but in the year under review, that income had been completely lost and the income of another 05 had decreased in the range of 06 to 70 percent compared to the previous year.	Since 2022-01-01, C/S Sri Lanka Poultry Development (Private) Company has been operating as a farm of the National Livestock Development Board. In the years 2019 and 2020, there is a lack of trained officers to employ for management, therefore untrained officers Employing management, not giving them proper training, service period being too short. The parent company's weaknesses in monitoring the company have adversely affected the company. I will procure and use the company's resources sparingly, efficiently and effectively in accordance with the relevant laws and regulations. I am trying to rebuild the lost income of the farm by starting new projects in the future.	Action should be done to increase the income of the company
(b) There are 39 golden orange trees in the farm owned by the institute and one tree can get approximately 40 fruits in a year and one fruit is worth at least Rs. 40 each, 1,560 nuts will be sold in a year and Rs. 62,400 could have been earned but in the year under review Rs. 4,580 had earned a meager income.	A census of orange trees is scheduled to take place in the future. Among those trees, there are trees that have fruits and trees that don't. Not applying fertilizers at the right time has affected this. I hope that in the future I will try to avoid this situation and get maximum results.	The income of the company should be correctly identified and shown in the financial statements.
(c) The farm has approximately 9,000 coconut trees and harvests approximately 55,000 coconuts every 45 days in one coconut shift. Accordingly, 440,000 (55,000*8) coconuts can be broken in a year and one coconut costs approximately Rs. 60 each and accordingly, the total income of coconut sales in a year is approximately Rs. 26,400,000 (440,000*60) can be earned. But in the year under review, the sale income of coconut was Rs. 15,473,558 were under-shown. And there was no effort to include information about these coconut trees in the commodity survey report.	Coconut fruit is harvested every 45 days. The yield of coconuts cut in a coconut shift varies according to the prevailing weather and climate conditions every year. There are approximately 9000 coconut trees in the farm, but not all of them are productive. Lacks of trained officers, use of minimal technology, and failure to apply fertilizer at the right time have affected the productivity of coconut. In the future, I will work to get high coconut production by applying fertilizers and providing technical training to the officials regarding coconut cultivation.	The income of the company should be correctly identified and shown in the financial statements.