

Sri Lanka Poultry Development Company Private Limited - 2021

1. Financial Statements

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 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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) 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.40,241,059 had not revalued and make relevant adjustments as per Sri Lanka Accounting Standard 8.	Adjustments can be made in accordance with Sri Lanka Accounting Standards 8 as we will prepare an accurate fixed asset register in the future.	The effective life of fully depreciated assets should be reviewed by management and adjusted to the financial statements in accordance with the provisions 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 and remain unused from 2017 to 10 October 2022. It was observed that Rs.578,024 was charged for depreciation annually instead of provision for impairment.	Although the relevant animal feed production machine was planned and started for the production of animal feed at a low price, the price of the raw materials in the market increased in the past years, standardized concentrated feed can be bought at a low price, the quality and standard of food production decreases rapidly when mixing food in small quantities. These factors directly led to a drop in daily production, so the food manufacturing plant was temporarily stopped.	Value of the asset should be assessed at fair value in accordance with the provisions of the standard.
(c) Adjustments have not been made for trade and other receivable balances for more than 5 years, amounting to Rs.1,235,456 as per Sri Lanka Accounting Standards No. 36. This balance comprises other receivable balance amounting to Rs.786,862, advance and deposit balance amounting to	These balances are the balances coming from the balance sheet related to LANLIB and I kindly inform that the company does not have any written evidence for those balances.	Impairment adjustments for trade and other receivable balances should be assessed as per the provisions of the standard.

Rs.298,750 and sales receivable amounting to Rs.149,844. Written evidence confirming these balances had not been submitted to the audit.

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| <p>(d) The immature coconut cultivation amounting to Rs.1,347,099 which has been carried forward since before the year 2009 in the statement of financial position, in the Mawatta farm is currently bearing fruit, but it has not been recognized as a mature plantation in accordance with paragraph 45 of Sri Lanka Accounting Standards 41 and has not been assessed and accounted for at fair value.</p> | <p>The company has no evidence to submit to the audit for the balance of coconut cultivation of Rs.1,347,099. That balance is a balance coming from the LANLIB balance sheet and will be able to account for the value of those trees in the future.</p> | <p>As per the provisions of the standard, mature coconut trees should be valued at cost or fair value and accounted for as mature plantation.</p> |
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1.5.2 Accounting Deficiencies

Audit Observation	Comments of management	Recommendation
<p>(a) A Cinnamon plantation worth Rs.212,765 at Mawatta farm had been shown in the financial statements. As the plantation has been destroyed, it should have been removed from the biological assets, but had not act accordingly.</p>	<p>Despite the initiation of a cinnamon project in 2017 and 2018, due to the severe drought and lack of rainfall, the cinnamon plants have been destroyed. Therefore, action will be taken to write off the expenditure of the Cinnamon project amounting to Rs.212,785 in the coming years.</p>	<p>The physical existence of the relevant plantation should be checked and adjustments made to the financial statements.</p>
<p>(b) Due to the fact that the fixed assets register was not kept up-to-date, the accuracy of the written down value amounting to Rs.75,497,131 and the depreciation amounting to Rs.2,025,960 in respect of property, plant, and equipment stated in the financial statements for the year under review could not be confirmed during the audit.</p>	<p>It is informed that the possibility of maintaining an accurate fixed asset register with a process of dissolution of the company in the year 2022.</p>	<p>Fixed asset register should be maintained up to date.</p>
<p>(c) Depreciation amounting to Rs.1,125,000 had not been accounted for the house at Barnes Place, valued at Rs.22,500,000 in the year 2014. The value of this house had not been taken at fair value in the financial statements.</p>	<p>It was valued at Rs.22,500,000 and that value was accounted and depreciation had not been accounted. Action will be taken to correct this in the future by preparing an accurate fixed asset register.</p>	<p>The value of this house owned by the company should be included in the financial statements.</p>

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| <p>(d) Although Rs.59,273 and Rs.162,225 respectively, had been shown in the financial statements for values of furniture and air conditioners, Rs.134,817 and Rs.234,325 respectively had been shown in the fixed assets register. Thereby, a difference of Rs.75,544 and Rs.72,100 was observed.</p> | <p>According to the financial statement and fixed asset register as at 31.12.2021, the net value of the furniture, equipment and fixtures should be Rs.134,817.</p> <p>According to the financial statement and fixed asset register as at 31.12.2021, the net value of the air conditioner should be Rs.162,225. The above figures have been corrected in the accounts of 2022.</p> | <p>The fixed asset values in the financial statements should be reconciled with the values in the fixed asset register and any difference should be corrected.</p> |
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1.6 Accounts Receivable and Accounts Payable

1.6.1 Accounts Receivable

Audit Observation	Comments of management	Recommendation
<p>(a) A balance of Rs.3,431,328 due for providing books and equipment to the National Livestock Development Board was included in trade and other receivable balances. The company had not taken effective steps to recover the balance which has been there for more than 05 years even at the end of the year under review.</p>	<p>In the year 2019, the receivable balance was Rs.5,215,029 and the balance was reduced to Rs.3,308,760 by the year 2020. At the end of year 2021, the balance was Rs.3,431,328.</p>	<p>Action should be taken to recover receivable balances immediately.</p>
<p>(b) The National Livestock Development Board took over the company in the year 2014 and according to a request made on 8 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.</p>	<p>The amount of Rs.140,000,000 has not yet been received by the company.</p>	<p>Action should be taken to recover the advance amount immediately.</p>

1.6.2 Accounts Payables

Audit Observation	Comments of Management	Recommendation
<p>(a) Under trade and other payable balances, Rs.6,000 to the Malsiripura farm belonging to the National Livestock Board and Rs.43,495 to the head office were due, but they have not included in the accounts receivable balances. Although the National Livestock Board had indicated that payable</p>	<p>Balances payable to the farms of National Livestock Development Board were correctly recorded in the financial statement. The company also has the relevant bills to prove the balance.</p>	<p>Differences in trade and other payable balances should be investigated and settled.</p>

to Welisara farm of the Poultry Development Company as Rs.1,698,198, balance of Rs.2,045,000 indicated in the Walisara farm account and thereby a difference of Rs.346,802 was observed. The differences in these balances were not investigated and settled.

- (b) It was observed that the balances due between 1st and 3rd year was Rs. 1,669,732 and the balance between 3rd and 5th years was Rs.16,406,635 according to age analysis of creditors. Action had not been taken to settle this balance.
- The company's income level was very poor, so it took a long time to settle those balances. Action is being taken now to pay those balances in instalments.
- Necessary steps should be taken to settle the creditor balances.

1.7 Non-compliance with laws, rules, regulations and management decisions

With reference to laws, rules and regulations	Non-compliance	Comments of management	Recommendation
Treasury Circular No. 842 dated 19 December 1978.	Fixed asset register was not updated.	Action had been taken to maintain a register of electrical equipment and a fixed asset register of computer equipment and software.	Fixed asset register should be maintained up to date.

2. Financial Review

2.1 Financial Results

The operating result before tax for the year under review was Rs.9,368,513 and the corresponding last year loss was Rs.11,455,253. Accordingly, an increase of Rs.20,823,766 was observed in the financial result. This growth was mainly due to the increase in income and decrease in cost of sales.

2.2 Ratio Analysis

Current asset ratio, quick assets ratio and gross profit ratio were 3.7, 3.19 and 43.37 respectively in the year under review and the same ratios were 3.26, 3.09 and 14.17 respectively in the previous year. Accordingly, a growth in the current assets ratio, quick assets ratio and gross profit ratio was observed. This growth was mainly due to the increase in income and decrease in cost of sales.

3. Operational review

3.1 Management Inefficiencies

Audit Observation	Comments of management	Recommendation
Before establishing this institution as a company, the company named LANLIB (LANLIB) has an unpaid tax liability of Rs. 25,932,371 from the years 2009 to 2013 in the financial statements of the year under review, and that tax liability is a balance that has existed for more than 07 years. Even at the end of the year under review, the relevant tax liability had not been settled.	An amount of Rs.299,054 was paid to the Inland Revenue Department. That is the difference in the document. It is informed that the necessary actions being taken to settle this tax liability.	Actions should be taken to settle the relevant tax liability.

3.2 Operational Inefficiencies

Audit Observation	Comments of management	Recommendation
The value of Rs.1,341,427 was paid for 08 transactions of purchase of drugs and vaccines for animals and 02 transactions of animal feed from 05 private institutions, but the related tender board reports and technical assessment reports were not submitted for audit.	Quotations are invited by registered mail for the purchase of vaccines on 22/02/2021. Some medicines have to be bought suddenly according to the diseases that the animals are suffering from, and the prices of the medicines are subject to rapid changes according to market inflation.	Reports of tender boards and reports of technical evaluation should be submitted promptly.