

Mahaweli Livestock and Agro Enterprises (Private) Limited - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mahaweli Livestock and Agro Enterprises (Private) Limited for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income, statement of changes in equity, and cash flow statement for the year then ended and notes to the financial statements including material accounting policy information 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 presented in 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 2023, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Enterprises.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 for Small and Medium-sized Enterprises 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 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is 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 scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My 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 of the Company ;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standard for Small and Medium-sized Enterprises

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) Even though the land of 1113 acres 0 rood and 37.76 perches in Girandurukotte farm and the land of 100 acres in Damminna farm had being used by the Company, the values of the lands had not been taken in to the accounts as per the Section 17.04 of Accounting Standard for Small and Medium-sized Enterprises.	Land has not been valued and accounted for as an asset of the Company. Land has not been transferred to the Company.	Land values should be assessed and accounted for as per the Accounting Standard.
(b) Even though a gain of Rs.640,000 generated from the revaluation of office equipment, vehicles and machinery carried out previous year had been accounted for in the year under review, the required disclosures had not been made as per the Section 17 of the Accounting Standard for Small and Medium-sized Enterprises.	Revaluations have been shown under the additions. The corrected statement is available which divided it as Additions and Revaluations.	Action should be taken to disclose as per the Accounting Standard.
(c) Even though a sum of Rs. 814,905 was deducted from the revenue reserve and a sum of Rs. 1,274,358 was added as prior year adjustment, relevant disclosures had not been made as per the Section 10.23 of the Accounting Standard for Small and Medium-sized Enterprises.	It will be corrected in the future.	Disclosures should be made as per the Accounting Standard.
(d) Even though the profit or loss should be adjusted to the financial statements after calculating the gratuity liability based on the actuarial valuation method when calculating the gratuity as per the 28.18 of the Accounting Standard for Small and Medium-sized Enterprises, the Company had not been complied with. The gratuity liability of Rs.228,662 for 07 employees whose service period is between 01-05 years had not been accounted for as per the section 28 of the Accounting Standard for Small and Medium-sized Enterprises.	It is informed that it will be corrected in the future.	The gratuity liability should be calculated and accounted for on the basis of the actuarial valuation method as per the Accounting Standard.

- (e) 195 teak trees in Damminna Farm and 211 teak trees in Girandurukotte Farm, which were recommended to be sold as commercial timber, had not been assessed and accounted for in accordance with Section 10 of Sri Lanka Accounting Standards No. 41.
- It has been identified and documented 211 teak trees in Girandurukotte farm and 195 teak trees in Damminna farm. A board paper will be presented related to this and it is informed that action will be taken to account for the values of these trees in the year 2024, by assessing these trees through a committee appointed by Board of Directors.
- Action should be taken to revalue these trees and taken in to account as per the Standard.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The stock difference of Rs.1,154,681 and the gratuity payments of Rs.1,113,911 had not been adjusted to the cash flow statement. Even though the increase in trade and other payable amounted to Rs.383,670 to be shown as cash inflow had been shown as a cash outflow of Rs.1,916,226. Even though an acquisition of property, plant and equipment amounted to Rs.155,172 had been shown as a cash inflow, there was a cash outflow of Rs. 903,614. Prior year adjustment which should not be adjusted to the cash flow statement amounted to Rs. 459,454 had been adjusted as working capital change.	Action will be taken to correct in the future.	Cash flow statement should be prepared in accordance with the Accounting Standards.
(b) Niraviya Farm located in Thambuththegama, Kanthale farm, Siddhapura farm in Polonnaruwa, Muthuwella farm in Welikanda owned by the Company, had been vested in Mahaweli Authority during the period 2005-2010 without formally exchanging the documents. Nevertheless, buildings and fittings, 26 vehicles, 45 office equipment, 63 plants and machinery, 03 generators, and 260 furniture and fittings costing Rs.22,336,573 owned by those farms were shown in the accounts, even though they had not been utilized by the Company. And the assets had not been physically surveyed by the Mahaweli Authority of Sri Lanka or the Company	It is informed that action will be taken to rectify this by submitting a board paper to appoint a verification committee including a member of Mahaweli Authority of Sri Lanka for the year 2024 to physically verify the assets of the following farms, Niraviya, Kantale, Siddhapura, Muthuwella, Thungkama, which have left the control of the company.	Action should be taken to account for the Company owned assets only.

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| (c) | A contribution of Rs. 25,840,605 to be paid to the Employees Provident Fund for the period of 110 months from January 2013 to December 2023 had not been paid by the date of audit on 04 April 2024 and surcharges amounting Rs.6,208,029 relevant to it had not been accounted for. | Action will be taken to account for the Surcharges to be paid for employee provident fund in the year 2024. | All liabilities should be identified and accounted for. |
| (d) | A contribution of Rs. 1,345,988 to be paid to the Employees Trust Fund for the period of 42 months from July 2020 to December 2023 had not been paid and surcharges amounting Rs. 652,809 relevant to it had not been accounted for. | Action will be taken to account for the Surcharges to be paid for employee trust fund in the year 2024. | All liabilities should be identified and accounted for. |
| (e) | The loss of Rs.502,203 on disposal of scrap material had been debited to the revaluation gain instead of adjusting to the profit and loss account. | Action will be taken to correct the adjustment of scrap value to the revaluation account. | The accounting error should be corrected. |
| (f) | Arrears contribution of employee provident fund amounted to Rs. 1,729,889 and surcharges amounted to Rs. 864,945 related to 06 employees of Niraviya farm had been defaulted as at 31 December 2023 and a portion of this outstanding amount which is a sum of Rs. 402,513 in contributions and surcharges, had not been accounted for | the payable balance was reduced to Rs. 2,030,402.30 after the presentation of information to the Court regarding the employee benefit funds to be paid and the payments made by the company within the stipulated time frame, and it was decided that this balance would be paid in installments of Rs. 50,000. | Action should be taken to account for the all liabilities. |
| (g) | Actions had not been taken to account for the penalty amount of Rs.1,797,312 related to taxes on unpaid accumulated values exceeding five years, including income tax, turnover tax, and national building tax. | Supporting documents for the balances have been presented | Action should be taken to settle and account for the statutory obligations. |
| (h) | A revaluation gain amounted to Rs. 213,480 arose in the asset revaluation in the year 2019 had been transferred to the income reserve instead of being allocated to the capital reserve. | The error in the re valuation gain for the year 2019 will be corrected in the accounts for the year 2024. | The re valuation gain should be accurately accounted for. |

- (i) As the company has continued to make adjustments to financial results of the previous years instead of correctly identifying the income and expenses of the year, prior year adjustments amounting Rs.5,933,003, Rs.3,376,919 and 2,089,263 had been made to the following year losses amounted to Rs.5,793,005 and Rs.1,325,555 and a profit amounted to Rs. 167,815 stated in the financial statements of the year 2020,2021 and 2022 respectively. As a result the financial result had been increased from 28 percent to 274 percent to losses of Rs.7,987,195, Rs.1,695,098 and Rs.291,639 respectively.
- It is informed that it will be shown as a note in the profit and loss account of the year 2024.
- Arrangements should be made to correctly identify the income and expenditure of the year on accrual basis.
- (j) In respect of three employees who resigned in February 2020, Rs. 842,668 gratuities had been shown under gratuity allocations instead of being shown as a payable balance and surcharges amounted to Rs.252,800 had not been accounted for with the arrears.
- Action will be taken to account for the gratuity surcharges payable for the final account of the year 2024.
- Action should be taken to correctly identify and account for the gratuity payable amount .
- (k) The fat produced as a by-product in milk production was used as a main ingredient in the production of ice cream and ghee, and a standard price had been used to calculate the value of that fat when calculating the cost of ice cream and ghee. The unit price, which was Rs.100, had been increased to Rs.400 from August 2022. The basis for using these unit standard prices, approvals and the effect of this increase had not been disclosed in the accounts.
- Necessary steps will be taken to obtain the necessary approvals and make relevant disclosures in the accounts.
- Action should be taken to obtain the necessary approvals to change the standard price and disclose in the accounts.

1.5.3 Lack of Documentary Evidence for Audit

Item	Amount Rs.	Audit Evidence Not Presented	Comments of the Management	Recommendation
(a) General Reserve		Adequate Information.	These balances are the balances in the final accounts of the Livestock Development Division in the year 2009 and the company does not have the relevant documents to confirm these balances. It is informed that a board paper will be submitted in this regard and attempts will be made to get confirmations from the Mahaweli Authority of Sri Lanka.	Balance confirmations should be obtained.
(i) Mahaweli Economic Agency	388,362,322			
(ii) Milk Development Fund, Kotmale	2,900,000			
(iii) Capital grants from the European Economic Commission	3,583,706			
(iv) Foreign Grants	5,729,782			
(b) Capital Reserve	5,271,743			

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
According to the financial statements of the Company, the balance due to the Company from Mahaweli Authority of Sri Lanka was Rs.5,820,430, but according to the financial statements of the Authority, the balance due from the Authority was Rs. 12,710,820, a difference of Rs. 6,890,390 was observed.	I certify that there is no balance due to Mahaweli Authority of Sri Lanka. It is certified that a sum of Rs.446,460 indicated as the difference of the receivable balance of the Mahaweli Authority of Sri Lanka is the value of raw materials and other stocks the farm had as on 30.09.2010 when the Niraviya Farm was handed over to Mahaweli Authority of Sri Lanka..	Arrangements should be made to collect the receivables.

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

Reference to Laws, Rules and Regulations, etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 2(1) and 102 of the Inland Revenue Act, No 24 of 2017	Actions had not been taken to register for the income tax or to be exempt from the tax by the Company.	Attention will be paid on this in the year 2024.	Action should be taken to register for the income tax or get exempted.
(b) Section II, Clause 5(1) of the 1983 No. 12 Payment of Gratuity Act	A total of Rs. 842,668 in gratuity, which was due to three employees who left service in February 2020, had not been paid As of 31 May 2024	It is noted and action will be taken in this regard.	Gratuity payments should be made to employees who have left service according to the provisions of the Circular Guidelines.
(c) Operational Manuel Public Enterprises Circular No 01/2021 dated 16 November 2021			
(i) Section 3.2	The Scheme of Recruitment and payment structure for the staff had not been sent for approval to the Director General of the Department of Management Services	It is noted to present in the year 2024.	The necessary approvals for the Scheme of Recruitment and payment structure should be obtained

(ii)	Section 6.6	The Draft Annual Performance Report had not been submitted along with the financial statements.	It is noted to present in the year 2024.	The draft annual report should be submitted along with the accounts.
(iii)	Section 2.3 of the Guidelines on Corporate Governance for State Owned Enterprises introduced by the Public Enterprises Circular No. PED 01/2021 dated November 16, 2021.	The Director Board approval had not been obtained for the Action Plan.	The action plan for the year 2023 has been submitted to the Board of Directors and action will be taken to submit and obtain approval for the Action Plan for the year 2024.	Director Board approval should be obtained for the Action Plan.
(d)	Section 3.5 of the Public Enterprise Circular No 02/2013 dated 11 September 2013	Even though a gratuity payable of Rs.12,598,899 was identified, action had not been taken to deposit that amount to a separate account.	Arrangements will be made to deposit the allocated gratuities into a separate account following the commencement of the public-private partnership operations.	Gratuity payable amount should be deposited to a separate account.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a loss of Rs. 295,392 as compared to the corresponding profit of Rs. 167,815 in the preceding year. Accordingly, a decrease of Rs. 463,207 in the financial result was observed. The main factors contributing to this decline were an increase in selling and distribution expenses by Rs. 662,410 and an increase in depreciation by Rs. 1,180,070.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The six vehicles, which had been left idle at the Girandurukotte farm with a cost of Rs. 2,351,000, were not repaired for use or taken steps to be disposed of.	Out of the six vehicles listed in the Girandurukotte farm vehicle register, the water bowser bearing number 42-1470 was sent to the Madatugama workshop for	These vehicles should either be repaired and returned to operational status or disposed of in

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| | <p>repairs on 15 May 2013. The tractor bearing number 37-6614 and the lorry bearing number 42-832 were allocated for auction. The motorcycle bearing number 121-5661 and the tractor trailer were deemed unfit for use, and the tractor bowser was set aside for repairs.</p> | <p>an appropriate manner.</p> |
| <p>(b) No action had been taken regarding the disposal of fixed assets valued at Rs. 9,453,140, which were identified as unusable during the asset verification in 2019 as of 05 April 2024.</p> | <p>The identified assets were separated, and the asset register was updated accordingly during the asset verification in 2019. In the subsequent asset verification in 2022, surplus materials were identified, and arrangements were made to dispose of those surplus materials in the year 2022.</p> | <p>Necessary actions should be taken in accordance with the recommendations of the committee regarding surplus items.</p> |
| <p>(c) According to the Articles of Association of the Company, the authorized capital comprised 5,000,000 shares each valued at Rs.10, and only 03 shares had been issued to the initial directors. But the other shares had not been issued even up to 31 December 2023.</p> | <p>Arrangements were made to transfer a portion of the shares to D.G. M.A.S.L. (Mr. Ranjith Amaranath Ibuldaniya) in April 2024. I would like to inform you that the remaining two shares will be issued after the transfer is completed.</p> | <p>Steps should be taken to issue the shares as necessary.</p> |
| <p>(d) The approval had been given to reorganize the Company as a Public-Private Partnership with an external investor selected by the project committee by Cabinet Decision No. අමස/18/2083/803/031 dated 18 September 2018. After that the approval to reorganize the Company under a contract to a Public Private Management had been granted by the cabinet by Cabinet Decision No. අමස/21/2229/317/025-1 dated 18 January 2022, but the required steps had not been taken to complete that task as on the date of audit.</p> | <p>The selection of this external investor is being carried out entirely by the Mahaweli Authority of Sri Lanka.</p> | <p>Necessary actions should be taken to finalize the reorganization under public-private management in accordance with the Cabinet decision.</p> |

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| (e) | Action had not been taken by the Company to take over 04 vehicles worth Rs. 8,156,000 belonging to the Mahaweli Authority of Sri Lanka that are currently being used. | The ownership of these vehicles remains with the Parent Company, while the operational rights have been granted to the Company. | Necessary arrangements should be made to take possession of the assets given to the Company. |
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3.2 Operating Inefficiencies

Audit Observation

The following observations have been made regarding performance in accordance with the Company's action plan for the reviewed year

Comments of the Management

Recommendation

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| (a) | The financial progress of broiler meat production operating under the Livestock Resources Division was at a low level, with a financial growth of 11.63 percent and a physical growth of 12.25 percent. Even though the financial growth in the goat rearing was 55.2 percent, and the physical growth was recorded at 41.46 percent. | Outside meat was purchased and sold from January to July. Even though an estimate of 1,200 kg was made for each quarter, the sales requirement for these two quarters was only 588 kg. In the year 2023, animals were sold from the unit only once. | Action should be taken to prepare the action plan by studying the market and considering the practical situations and achieve the established goals accordingly. |
| (b) | Even though the Company had expected to earn an income of Rs. 1.19 million by producing 3200 liters of ice cream according to the Action Plan, only a sum of Rs. 0.31 million had been earned by producing 548 liters. | The ice cream production machine has become inoperable and cannot be repaired. Production has stopped since the second quarter. | The Action Plan should be prepared based on practical conditions and actions should be taken to achieve the established goals. |

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation

Comments of the Management

Recommendation

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| (a) | Even though Goods and Constructions including barns for cattle and goats constructed in the 2014 and 2015 by System "C" of the Mahaweli Authority of Sri Lanka with a view to converting the farm maintained in Girandurukotte in to a training centre for poultry farming, had been assessed to the value of Rs. 9,338,000 and handed over to the Company on 08 February 2016, as the Company failed to establish a specific plan or methodology to make | The buildings, constructed based on the requirements of another party, were handed over to the company on 08 February 2016. However, the company did not have the capability to purchase the animals necessary to utilize these buildings. As a result, depreciation allocation for unnecessary assets has been assigned to the company, leading to a burden of non-revenue expenses. | Appropriate methods should be devised to effectively utilize these constructions and act accordingly. |
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use those construction, such assets remained idle from the date of handover.

- (b) The seven buildings constructed in 1986 and owned by the Giradurukotte Livestock Farm have remained completely idle and had not been utilized." Action will be taken to identify and remove these buildings during the asset verification in 2024. I would like to inform you that all renovations of the production facility will be carried out after the commencement of the Public-Private Partnership." Action should be taken for disposal based on the decision of the Board of Directors if the idle buildings are found to be unusable after inspection