

Transaction report of the Mahaweli Livestock Enterprises Limited - 2022 / 2023 .

The operational activities of Mahaweli Livestock Enterprise Limited for the years ended 31 March 2023 and 2022 were audited under my direction in accordance with the provisions of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. This report contains my observations on the operations of the company for the years 2022 and 2023, which I consider should report to Parliament in accordance with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibilities of Management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the Company's financial statements in accordance with Sri Lanka Accounting Standards and for determining such internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

2. Financial Statements

2.1 Presentation of Financial Statements

Audit Observation	Comments of the management	the Recommendation
As per paragraph 6.6 of the Operations Manual submitted with the Public Enterprises Circular 01/2021 dated 16 November 2021, the financial statements and draft annual reports should be submitted to the Auditor General within 60 days of the end of the accounting year, Although the financial statements and draft annual reports for the years 2022 and 2023 had not been submitted to the Auditor General by 06 December 2024.	At present, steps have been taken to submit it to the Auditor General with the approval of the Secretary of the Ministry of Agriculture, as per the instructions of the Auditor General.	As per the circular, financial statements and draft annual reports for the years 2022 and 2023 should be prepared and submitted to the Auditor General.

2.2 Ratio Analysis

The accounting ratios calculated for the three years from 2019 to 2021, as per the financial statements submitted by the company, are shown below.

	2018	2019	2020	2021
Current ratio	1.05	1.01	0.78	0.83
Quick ratio	0.76	0.74	0.55	0.74
Gross profit ratio	19%	10.6%	(7%)	15.5%
Net profit ratio	4.16%	(5.05%)	(23.11%)	2.42%
Debt collecti on period	124 days	126 Days	164 days	145 days

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The company's current ratio and quick ratio remained at a low level from 2018 to 2020, and although those ratios had increased to a certain level in 2021, it was observed that they were not at an optimal level. Accordingly, it is observed that the company has a working capital problem.	The main reason for the quick ratio and the current ratio vary greatly from year to year is due to the price of chicks and the price of feed given to the mother birds. It is a normal situation seen on a farm.	Actions should be made to maintain the company's working capital requirement at an optimal level.
(b) The gross profit ratio and net profit ratio had declined from 2018 to 2020, and in 2021, those ratios had shown an increase of 15.5 percent and 2.42 percent, respectively. Accordingly, it was observed that the company's profit and loss situation had been constantly fluctuating.	The ratio of gross profit and net profit shows variability as mentioned. It will work to maintain these variations as normal in the future.	Action should be taken to improve gross profit ratio and net profit ratio.
(c) There was a significant decline in the time taken to collect debts from 2018 to 2020, and although the time was reduced by a few	Debt collection activities have been carried out as usual since 2018. The	Action should be taken to minimize the debt collection

days in 2021, a slow recovery was observed in the collection of balances exceeding five years. main reason for not being able to recover debts from before 2018 is that our institution does not have sufficient information about them. period.

2.3 Non compliance with rules, regulations and management decisions etc.

Reference to laws, rules, regulations, etc.	Non compliance	Comments of the management	Recommendation
Public Enterprise Circular No. 1/2021 and dated 16 November 2021	The Board of Directors is required to meet once a month for 12 times during the year and provide guidance and performance evaluation on the performance of the company, although a Board of Directors has not been appointed since 2019 and no Board of Directors meetings have been held for the years 2022 and 2023.	No Board of Directors has been appointed since 2019 and therefore no Board of Directors meetings have been held. Currently, the Board of Directors of the National Livestock Development Board is only working on the liquidation of the company.	Actions should be taken in accordance with the circular and meetings should be held to make effective decisions for the improvement of the institution.

3. Operational review

3.1 Management inefficiencies

	Audit Observation	Comments of the management	Recommendation
(a)	As stated in the Cabinet Memorandum No. AMP/15/0940/631/018-I and dated 16 July 2015, as per the observation of the Ministry of Finance No. BD/RDS/124/CM/07 and dated 08 July 2015, all resources, assets, shares and management should have been acquired by the National Livestock Development Board to	Liquidation proceedings related to the process of transferring all assets, shares and management to the National Livestock Development Board are underway, and the situation regarding the acquisition of shares held by the Mahaweli Authority is currently at the negotiation stage, depending on the decisions of the top management of both parties.	In accordance with the Cabinet Memorandum and the observations of the Ministry of Finance, the liquidation and transfer of the company should be carried out expeditiously.

ensure the operational efficiency of the company under the relevant legal procedures, but only 27 percent of the company's shareholding had been acquired. However, the acquisition process had not commenced until the audit date, 06 December 2024.

- (b) Although the Residential Business Manager (H Zone) of the Mahaweli Authority had informed by letter No. RPM/T/L/CLO/Gal/74 dated 10 October 2017 that Rs.10,485,000 including surcharges was to be paid to the Sri Lanka Mahaweli Authority for the Kalankuttiya farm land for nine years from 2010 to 2018 and that the leasehold would be cancelled as the said leasehold had not been paid, the said leasehold had not been paid by 06 December 2024 and no provision had been made for it in the financial statement. Furthermore, relevant evidence that an agreement had been reached for the leased property was not submitted until the audit date of 06 December 2024.
- Due to the company's very low financial position, it was unable to pay the relevant taxes. During the discussion held under the leadership of the Director General of the Sri Lanka Mahaweli Authority, with the participation of the Deputy Chairman of the National Livestock Development Board, Cabinet officials and the management of the Mahaweli Livestock Enterprises Limited, it was decided to transfer the 25 acres of land of the Kalankuttiya farm to the Mahaweli Livestock Enterprises Limited by deducting the amount of Rs. 12,057,503 to be collected from the Mahaweli Livestock Enterprises Limited on loan to the farms belonging to the Mahaweli Authority. Since all these institutions are controlled under the Ministry of Mahaweli, Agriculture, Irrigation and Rural Development, and currently its implementation is at a slow stage.
- The outstanding lease amount of Rs. 10,485,000 should be paid to the Sri Lanka Mahaweli Authority and provisions should be made for it in the financial statements.
- (c) The 26-acre farm land on which the office is located belongs to the Mahaweli Authority and a thirty-year lease agreement was entered into regarding the land on 3 October 1989, and in accordance with its terms, the lease period expired on 2 October 2019. Furthermore, no action had been taken to update the agreements relating to this land, on which a total of 31,099 square feet of buildings and 46,924 square feet
- Our institution and the Chairman of the National Livestock Development Board have submitted many request letters to the Mahaweli Authority to renew this lease period. Discussions are currently underway between the Sri Lanka Mahaweli Authority and Mahaweli Livestock Enterprises Limited regarding the transfer of the company.
- A lease agreement must be entered into or actions should be taken to update the agreements regarding lands whose lease period has expired.

of structures had been constructed (no value). Furthermore, a lease agreement regarding the 2 acres of Niraviya land owned by the Authority, where the company operates a farm, had not been submitted for audit.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>According to the action plan submitted by the company, the desired targets were set under 04 main activities namely chicken production, chicken meat production, pig production and coconut production. In achieving those desired targets, the percentage of achievement in chicken meat production and pig production was at a significantly low level of 43 percent and 17 percent respectively.</p>	<p>The production of chicks could not be carried out as expected due to the non-availability of broodstock from the institution as requested. This made it difficult to achieve the expected production target. The expected reduction in chicken meat production occurred because the price of broiler chicks was at a very high level at one time that year. Since the sale of chicks was more profitable than broiler meat production, the focus was reduced on meat production. Due to the increase in chick prices and the stability of the price for most of 2023, the expected production was not achieved.</p>	<p>Action should be taken to achieve the desired targets.</p>

3.3 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>Although the approved number of employees and the actual number of employees for the years 2022 and 2023 were submitted as 20, detailed information regarding those employees had not been submitted to the audit.</p>	<p>It was a mistake on our part. Action will be taken to provide detailed information.</p>	<p>Action should be taken to keep information regarding employees up to date.</p>

3.4. Procurement Management

Audit Observation	Comments of the Management	Recommendation
Although the Board is required to prepare a procurement plan for a period of at least three years, including the matters specified in paragraph 4.2.1(b) of the Procurement Guidelines, the Company shall prepare a procurement plan for the procurement activities for the following year, and shall prepare a procurement plan that is updated regularly within a period not exceeding six months, including the matters specified in paragraph 4.2.1 of the Procurement Guidelines, a procurement plan including such matters had not been prepared for both the years 2022 and 2023.	The procurement plan for the years 2022 and 2023 had not been prepared. A procurement plan had been prepared for the year 2024. Action will be taken to continually prepare the procurement plan for the future years as well.	A procurement plan should be prepared in accordance with the Procurement Guideline.

4. Accountability and Good Governance

4.1 Audit Committee

Audit Observation	Comments of the Management	Recommendation
Although it is stated in Section 1.2 (h) of Chapter 4 of the Guidelines for Good Governance issued by the Department of Public Enterprises on 17 November 2021, that an Audit Committee should be convened every 3 months and the recommendations made there at should be sent to the Board of Directors, the Board had not held Audit Committee meetings for the years 2022 and 2023.	Board of Directors had not been appointed for our company since late 2019, and the institution has not had a board of directors since then. Also, management committee meetings had not been held for the institution.	In accordance with Section 1.2 (h) of Chapter 4 of the Guidelines for Good Governance, an Audit Committee meeting should be held once in every 3 months.

4.2 Corporate Plan

Audit Observation	Comments of the Management	Recommendation
In accordance with the Public Finance Circular No. 01/2014 and dated 17	Board of Directors had not been appointed for the Mahaweli	According to the circular, these plans

February 2014 and the Guidelines for Good Governance of Public Enterprises issued with the Circular No. 01/2021 dated 16 November 2021, the Company was required to prepare a corporate plan and accordingly, to conduct the business in a manner that would enable it to achieve the proposed targets. The corporate plan prepared 15 days before the commencement of the financial year should be submitted to the Line Ministry, Department of Public Enterprises, Treasury and Auditor General after approval by the Board of Directors, but a corporate plan covering the years 2022 and 2023 had not been submitted for audit until 06 December 2024, the date of the audit.

Livestock Enterprises Limited since 2019 and has not prepared a corporate plan for the years 2022/2023. Action will be taken to prepare a corporate plan for the future years.

should be submitted 15 days before the start of the accounting year.

4.3 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>According to the Public Finance Circular No. 01/2014 and dated 17 February 2014, an action plan should be prepared based on the corporate plan, including the commercial activities expected to be implemented in the coming financial year, and it should include the annual budget, proposed major investments, capacity expansions, annual procurement plan including major procurements, human resource development plan and internal audit plan, etc. However, the company had not prepared an action plan for the year 2022 and an action plan prepared in accordance with the circular for the year 2023 had not been submitted for audit until 06 December 2024, which is the date of the audit.</p>	<p>An action plan had not been prepared for the years 2022/2023, but an action plan has been prepared for the year 2024 and action will be taken to submit the action plan prepared for the year 2025 on the due date.</p>	<p>The action plan should be prepared in accordance with the circular.</p>

4.4 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
<p>Although the budget approved by the Board of Directors in terms of the paragraph 2.3 of the Public Enterprises Circular No. 1/2021 dated 16 November</p>	<p>Board of Directors had not been appointed for our Company since late 2019. Therefore, it was not possible to prepare a budget and</p>	<p>Action should be taken as per the circular.</p>

2021, should be submitted to the Line Ministry, the Department of Public Enterprises, the Treasury and the Auditor General's Department within a period not exceeding 15 days before the commencement of the year, however a budget had not been prepared for the year 2022.

submit it to the Board of Directors for approval.

4.5 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
<p>Although the United Nations has introduced the Sustainable Development Agenda based on achieving economic growth and social development and environmental protection in all member countries by the year 2030, the company has not identified the desired goals, targets and indicators that have been prepared in accordance with it.</p>	<p>Action will be taken to pay attention to this and take action in the future.</p>	<p>Desired goals, targets and indicators should be identified in line with the sustainable development agenda.</p>

4.6 Submission of Annual Reports

Audit Observation	Comments of the Management	Recommendation
<p>Although the draft annual report should be submitted for audit within 60 days of the end of the financial year in accordance with the Public Enterprise Circular No. 1/2021 and dated 16 November 2021, the draft annual reports for the years 2019, 2020, 2021 and 2022 had not been submitted for audit by the audit date of 06 December 2024.</p>	<p>The annual accounts for the year 2020/2021 had been submitted to the National Audit Division. Draft accounts for the annual accounts for 2021/2022 and 2022/2023 have been prepared. The reason for not being able to submit the accounts is the absence of a Board of Directors. Currently, as per the instructions of the National Audit Division, they are being submitted to the National Audit Division with the approval of the Secretary to the Ministry of Agriculture.</p>	<p>Action should be taken to prepare accounts promptly and submitted for audit.</p>