

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 2024 comprising the statement of financial position as at 31 December 2024 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 2024, 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 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)	The value of the land extent of 1,113 acres, 0 roods, and 37.76 perches at the Girandurukotte farm, and the value of the 100 acres land at the Damminna farm had not been taken in to account as per the Section 17.4 of the Accounting Standards for Small and Medium-Sized Enterprises	The lands of the Girandurukotte farm and the Damminna farm have not been vested in the company after valuation by the Mahaweli Authority of Sri Lanka. The company has only been granted the right to use those lands.	Land values should be assessed and accounted for as per the Accounting Standard.
(b)	Even though financial statements should be presented by adjusting the prior year errors comparatively to the prior year figures as per the Accounting Standard 10.21 for Small and Medium-sized Enterprises, the company had not complied accordingly.	Comments had not been given.	Financial Statements should be presented by adjusting the prior year errors comparatively.
(c)	Even though a sum of Rs. 13,454,122 was deducted from the revenue reserve and a sum of Rs.7,402,549 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 presented in the year 2025.	Prior year adjustment should be disclosed as per the Accounting Standard.

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| (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. | It is informed that gratuity amounts will be accounted for in compliance with the Accounting Standard 28.18 in the year 2025. | The gratuity liability should be calculated and accounted for on the basis of the actuarial valuation method as per the Accounting Standard. |
| (e) | The 195 teak trees in the Damminna farm and the 211 teak trees in the Giradurukotte farm, which had been valued at Rs. 9,446,800 with a recommendation to be sold as commercial timber, had not been accounted for in accordance with paragraph 10 of Sri Lanka Accounting Standard No. 41. | The spot valuation for these teak trees was obtained from the State Timber Corporation in February 2025. Accordingly, it is hereby informed that those trees will be valued and included in the required accounts for the year 2025. | Action should be taken to value the trees and account for them in accordance with the Accounting Standard. |

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) As the company has continued to adjust financial results of the previous years instead of correctly identifying the income and expenses of the year, prior year adjustments amounting Rs.3,376,919 Rs.2,089,263 and 20,856,669 had been made to the following year loss amounted to Rs.1,325,555, a profit amounted to Rs.167,815 and a loss amounted to Rs. 295,352 stated in the financial statements of the year 2021,2022 and 2023 respectively. As a result, the financial result had been increased from 28 percent to 2048 percent to a loss amounted to Rs.1,695,098 a profit amounted to Rs.627,268 and a loss amounted to Rs.6,346,924 in the year 2021,2022 and 2023 respectively.	Noted for correction in the future.	A responsible control system should be established to correctly identify the income and expenses for the year.
(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	It is hereby informed that these assets will be physically inspected by the company in the year 2025.	Action should be taken to account for the company owned assets only.

2005-2010 without formally exchanging the documents. Even though the total value of the fixed assets owned by these farms amounted to Rs. 22,335,573, which were not utilized by the company, they had been included in the company's accounts and the assets had not been physically surveyed by the Mahaweli Authority of Sri Lanka or the company

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| <p>(c) Surcharges amounting Rs. 652,809 to be paid to the Employees Trust Fund and surcharges amounting Rs. 402,513 to be paid to the Employees Provident Fund had not been paid and accounted for.</p> | <p>Action will be taken to account for the Surcharges and settle the arrears amount in the year 2025.</p> | <p>All liabilities should be identified and accounted for.</p> |
| <p>(d) The vehicle repair expense of Rs. 441,111, incurred but not accounted for in 2022, were recorded in the financial statements of the year under review as a payment made in advance.</p> | <p>Action will be taken to include it in the profit and loss account for the year 2025.</p> | <p>As this expense pertains to the year 2022, it should be recognized and adjusted as a prior year adjustment.</p> |
| <p>(e) Five vehicles and two tractor trailers, amounting to Rs. 2,285,000, which had not been disposed of, were removed from the non-current assets balances as of 31 December 2024.</p> | <p>Action will be taken to dispose of these vehicles during the year 2025.</p> | <p>The five vehicles and two tractor trailers, which are still in use by the company, should be reinstated in the non-current assets balances.</p> |
| <p>(f) Even though the Labour Department had filed cases regarding the long-outstanding unpaid salaries of Rs. 3,992,144, along with the related Employee Provident Fund contribution amounted to Rs. 1,144,999 and Employee Trust Fund contributions amounted to Rs. 166,208, adequate disclosure of these amounts had not been made in the financial statements.</p> | <p>Action will be taken to settle the payments in installments in the year 2025.</p> | <p>Disclosures should be made according to the Accounting Standard.</p> |

1.5.3 Lack of Documentary Evidence for Audit

Item	Amount Rs.	Audit Evidence Not Presented	Comments of the Management	Recommendation
(a) General Reserve				
(i) Mahaweli Economic Agency	388,575,802	evidence that can substantiate the value	This balance represents the funds that were allocated to the Livestock Development Division during the period it functioned under the Mahaweli Authority of Sri Lanka. There is no record of the company in this regard.	Documents relevant to confirm the balances should be submitted for audit.
(ii) Milk Development Fund, Kotmale	2,900,000	-Do-		
(iii) Capital grants from the European Economic Commission	3,583,706	Documents relevant to account for		
(iv) Foreign Grants	5,729,782	-Do-		
(b) Capital Reserve	14,159,541	-Do-		

1.6 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 5(1) of Part II, the 1983 No. 12 Payment of Gratuity Act	A total of Rs. 1,320,523 in gratuity, which was due to three employees who left service in February 2020, had not been paid as of 18 March 2025.	Action will be taken to make the payments in the year 2025.	Necessary steps should be taken to settle the outstanding gratuity payments.
(b) Section 16 of Part II of the Employees' Trust Funds Act, No. 46 of 1980.	Contributions amounting to Rs. 1,296,426, payable to the Employees' Trust Fund for the 40 months period from July 2020 to October 2023, had not been paid.	The outstanding balance was fully settled during the year 2025.	Necessary steps should be taken to settle the outstanding contributions within the stipulated time frame.

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| (c) | Section 15 of Part II of the Employees' Provident Funds Act, No. 24 of 1971. | Contributions amounting to Rs. 23,444,504, payable to the Employees' Provident Fund for a period of 98 months from January 2013 to December 2022, had not been paid as of the audited date, 18 March 2025. | The payment is scheduled to be made in installments during the year 2025. | Necessary steps should be taken to settle the outstanding contributions. |
| (d) | Section 102 and Part II of the Inland Revenue Act, No 24 of 2017 | The company had not been registered for income tax. | It has been noted that the necessary measures will be implemented during the year 2025. | Action should be taken to register for the income tax or get exempted. |
| (e) | Public Enterprises Circular No 01/2021 dated 16 November 2021 | | | |
| (i) | Section 3.2 of the Operational Manual | Even though the scheme of recruitment and payment structure for the of state-owned enterprises should have been submitted to the Director General of the Management Services Department for approval, with the recommendation of the line ministry and the approval of the Board of Directors, the company had not acted in compliance with this requirement. | Appropriate action will be taken during the year 2025. | Necessary actions should be taken to obtain the required approvals in accordance with the circular provisions. |
| (ii) | Section 2.3 of the Guidelines on Corporate Governance for State Owned Enterprises | The Director Board approval had not been obtained for the Action Plan. Furthermore, the strategic plan, operational plan and annual budget were | Measures are being undertaken to present the performance report and action will be taken to submit the report to the Department of the | Appropriate disciplinary measures should be taken against the officials responsible for failing to secure approval for the |

required to be submitted to the Director General of the Public Enterprises Department via the Secretary of the line ministry, but the company had failed to comply with this requirement.

National Budget in 2025.

Action Plan. In addition, a systematic procedure should be established to ensure the submission of plans and budget documents to the Director General of the Public Enterprises Department.

- (f) Section 3.5 of the Public Enterprises Circular No. 02/2013 dated 11 September 2013.
- Even though a gratuity provision of Rs. 11,013,043 had been identified, no action had been taken to deposit this amount into a separate account.
- It is noted that the action will be taken to deposit the gratuity funds into a designated separate account.
- Necessary action should be taken to deposit the gratuity provisions into a separate account.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a profit of Rs. 9,773,912, compared to a loss of Rs. 295,352 in the preceding year. Accordingly, an increase of Rs. 10,069,264 in the financial results was observed. The main factor contributing to this increase was the rise in the fair value of the biological assets inventory.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	No action had been taken regarding the disposal of fixed assets valued at Rs. 9,902,282, which were identified as unusable during the asset verification in 2019 as of 31 December of the year under review. 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.	Goods valued at Rs. 9,453,140, which had not been identified, were re-added to the asset register. Subsequently, in 2022, the relevant assets were re-identified and removed. Action will be taken for disposal in the year 2025.	Necessary action should be taken either to repair these assets for use or to dispose of them.

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| (b) | The four vehicles utilized by the company, valued at Rs.8,156,000 and belonging to the Mahaweli Authority of Sri Lanka, had not been formally transferred. | These assets had been entrusted to the company solely for the purpose of utilization. | Action should be taken to transfer the vehicles of the Mahaweli Authority utilized by the company. |
| (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 year under review. | It has been noted that arrangements have been made to issue shares in the year 2025. | Measures should be undertaken to issue shares as required. |
| (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. Accordingly 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, However, such action had not been finalized as at 05 June 2025, the date of audit. | This function will be carried out by the Mahaweli Authority of Sri Lanka. | In line with the cabinet decision, the company should be restructured under public-private management agreement. |

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though the company's Articles of Association specified primary objectives such as conducting agricultural activities on farms, managing poultry at wholesale and retail levels, producing feed required by farmers for poultry management and rearing, selling, improving and processing cattle, pigs, poultry and goats, as well as carrying out export activities and undertaking fruit and grain-related business operations, the management of milch cows, draught cattle, poultry, pigs and goats had been carried out on a limited scale over several years. Thus, the small-scale swine management activities carried out were discontinued in 2021, and all the pigs on the farm were completely sold in 2022. The sale of broiler chickens had already been stopped since 2020, and the sale of broiler chicken meat sourced from outside suppliers was also discontinued from 2024. Furthermore, in 2024, a total of 139 goats were sold for Rs. 2,794,310. Accordingly, by the end of 2024, it was observed that only 143 milch cows remained as the company's livestock.	Due to insufficient funds for purchasing animal feed and the resulting losses from those units directly affecting the company, swine management was discontinued. The sale of broiler chickens was halted as it had become unprofitable owing to prevailing price fluctuations. In 2023, goats were sold in order to settle Employee Provident Fund contribution payments, as decided by the Board of Directors.	Business activities should be carried out in order to successfully achieve the primary objectives of the company.
(b) Even though the Giradurukotte and Damminna farms together comprised approximately 1154 acres of land, this land had not been productively utilized by the company for cultivation purposes. The Board of Directors had approved the leasing of company-	The demand for land decreased as a result of the delay in obtaining approval for land allocation for the 2023/24 Maha season	Measures should be taken to increase the extent of land leased in order to utilize the land productively. The relevant approvals must be obtained without delay, and

owned land to farmers under the tenant cultivation system for maize and paddy cultivation as a source of income. However, for the 2023/24 Maha season, only 91.75 acres at the Giradurukotte farm were leased for maize cultivation, 11.5 acres for paddy cultivation and approximately 20 acres at the Damminna farm for paddy cultivation for the 2023/2024 Maha season. Accordingly, it was observed that only 123.25 acres, or about 10.6 percent of the company's land, had been leased out in 2024.

disciplinary action should be taken against the officials responsible for the delay in obtaining approval for the 2023/24 Maha season.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
(a) Production activities had been halted due to the inoperability of the machine that produces approximately 3,000 liters of ice cream annually since December 2023, and as of the audit date, 3 June 2025, the machine had still not been repaired.	This machine has become inoperative and cannot be repaired	Action should be taken to investigate the failure to perform regular maintenance of the machine, and the officials responsible should be identified
(b) 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 use those construction, such assets remained idle from the date of handover.	The company does not have the practical ability to use these buildings, which were constructed based on the requirements of another party.	These constructions should be utilized productively in accordance with an appropriate method.