Milco Private Limited - 2020
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1. Financial Statement

1.1 Disclaimer of Opinion

The audit of the financial statements of the Milco Private Limited("Company") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 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.

I do not express an opinion on the financial statements of the Company. Due to the significance of the matters discussed in the Basis for Disclaimer of opinion section, I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the facts set out in paragraph 1.5 of this report.

1.3 Responsibilities of Management and Those Charge 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 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 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 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 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 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with reference to the relevant standard	Comments of the Management	Recommendation
(a)	Assets, liabilities, income, and expenditure balances should not be offset and presented in the financial statements except as permitted by the standard in accordance with paragraph 32 of Sri Lanka Accounting Standards No.01. Sum of Rs.4,170,475 of debit balance of the trade creditor's in the head office financial statements and sum of 04 debit balances of Rs.24, 654,488 other payable items were offset against current liabilities. The sum of debtor balances of Rs.20,697,294, Rs.33,350,997 and Rs.1,567,550 in the head office, Digana, and Colombo dairy factories respectively, and advance deposits and prepayments of Rs.6,679,409 also showing as a credit balance. As a whole, the current liabilities and current asset balances are reduced by Rs.28, 824,963 and Rs.62,295,250 due to above reasons respectively.	I hereby inform that considering the debit and credit balances that can be removed, the necessary arrangements will be made to remove those balances from the creditor balances in the coming year.	Assets, liabilities and income, expenditure balances should not be offset and presented in the financial statements.
(b)	In accordance with paragraph 13 of the Sri Lanka Financial Reporting Standards 8, segmental reporting of the financial statements should have been done. But 4 factories and the cattle fodder production division of the company had not been done so,	The institute does not currently do segmental reporting and will consider its necessity in the future.	Segmental reporting should be done in the financial statements
(c)	According to the paragraph 5.5.15 of Sri Lanka Financial Reporting Standards No. 09, the trade debtor balance of Rs.719,118,672 should be measured subsequently using the expected credit loss method, but the debtor balance was not calculated accordingly, and according to the schedules submitted for audit, the balance was Rs.712,258,436 and a Rs.6,860,236 difference was observed. Further, the scope was limited as no age analysis was submitted to the audit for the other debtor balance of Rs.46,400,866.	Currently all the debtor balances of the company are covered by a bank guarantee, so management is of the view that there is no need to set aside losses for those balances.	While valuing trade and other receivable balances should be assessed using the expected credit loss method and the balances should be equal as per schedule. Age analysis should be submitted to audit.
(d)	As per the paragraph 37 of Sri Lanka Accounting Standards 12, Deferred tax assets were not recognized and accounted for in the financial statements for the year under review by stating that no evidence to confirm which the company is a major producer of milk-related	The company does not expect the amount of profit required to pay taxes in the near future because of the big gap	Deferred tax assets should be recognized and accounted for in the financial statements.

	products in the market, there is a huge demand for those products and it has incorporated as a private company and no evidence to confirm that it can earn a taxable profit or taxable temporary difference.	between the capital allowance rate and the company's depreciation rate and the resulting tax loss. But already, the company is making accounting profits.	
(e)	In accordance with paragraph 50 and 51 of Sri Lanka Accounting Standards 16, the useful life of assets in use should be reviewed annually and an effective useful life should be estimated and accounted for as a change in estimates in the accounts. However, 6,562 items of fixed assets totalling Rs.470,817,829 have been fully depreciated and have been in use since 2013 to 31 December 2020, but the effective useful life has not been reviewed as per the standard.	An asset verification and revaluation have already been done by the line ministry, and necessary adjustments will be made based on the results.	Assets that are fully depreciated but still in use should be reassessed to their effective useful lives
(f)	According to paragraph 2.04 of the agreement with the company and the Department of Foreign Resources for the factory modernization project, all expenses incurred by the Department of Foreign Resources related to the project, such as Exchange changes also should borne by the company. Accordingly, the long term loan balance due on 31 December 2020 related to the above project should be valued and accounted for at the foreign exchange rate at the end of the year in accordance with paragraph 23 of Sri Lanka Accounting Standards 21. Thus, since the adverse effect of foreign exchange rate change of Rs.1,467,885,383 that should be accounted for from 2013 to 2020 had not been accounted and the company's long-term debt was understated by equal to that amount. As the foreign exchange changes of Rs.71, 197,063 in the reviewed year was not adjusted in the accounts and the profit of the year was also overvalued by the same amount.	This project is capitalized in 2021 and therefore it is anticipated that these adjustments will not be required.	The effect of foreign exchange rate changes should be accounted for
(g)	According to the letter of treasury operations department No.TO/REV/05/33/6 and dated 27 September 2023, the unreimbursed loan balance to the treasury by the company on 31 December 2020 under the factory modernization project was Rs.6,487,344,117 and as per the financial statements, it was Rs.9,148,369,878. Therefore, Rs.1, 658,903,964 more had been accounted for. Although the related cumulative payable interest amount was Rs.944, 267,259, it was not accounted for, so the payable interest amount was understated by that	This balance has capitalized in 2021 and this adjustment has not made in 2020.	The amount of loan interest that incurred during the construction period should be capitalized.

	value. As per paragraph 12 of Sri Lanka Accounting Standards 23, the amount of loan interest to be capitalized during the construction period was not capitalized to the relevant work in progress account till the year under review, so the work in progress was also understated.		
(h)	As per paragraph 12 (e) of Sri Lanka Accounting Standards 36, impairment adjustments should be made for idle machinery. Nevertheless, the ice cream cone filling machine purchased in 2014 costing Rs.15,445,587 to Digana Dairy Factory and the yogurt mixing machine worth Rs.104, 177,779 purchased on lease basis on 20 January 2011 to be installed in Colombo Dairy Factory, impairment adjustments were not made in respect of the 4 machines with a total value of Rs.2, 275,000.	Agree with the facts pointed out by the audit and relevant adjustments will be made in preparing the financial statements for the next year.	Impairment adjustments should be made for idle machinery.
(i)	The supplier had sued the company for damages of Rs.40 million as the board of directors canceled the purchase order for Uninterruptible Power Supply Unit (UPS) at Ambewela Dairy Factory after awarding it. In that regard, according to paragraph 86 of Sri Lanka Accounting Standards 37, the notes to the financial statements were not disclosed.	Recommendations from top management are required to make adjustments in this regard and the necessary recommendations have not been received so far.	Cases filed against the company should be disclosed in the notes to the financial statements.

1.5.2 Accounting Deficiencies

Audit Observation

(a)	As per Note No. 02 of the company's statement of financial position, the amount of depreciation for the year under review was Rs.535,201,255, but due to the amount of depreciation in the financial statement for the year being Rs.529,445,941, a difference of Rs.5,755,314 was observed in recording the depreciation of the year.	In the consolidated account statement of the company has stated under overhead cost Rs.463, 178,690/- and under depreciation in trade and profit account Rs.26, 930,175/- is shown. Apart from that, Rs.37, 043,570.19 has stated under milk freezing center cost and Rs.2, 236,103.47 under selling and distribution cost.	Depreciation values in the note in the statement of financial position should be reconciled with the values in the financial statement.
(b)	Considering the balance sheets of each of the last financial statements of the company's 06 divisions	The excess of opening accumulated	Depreciation values in the statement of

	namely the Colombo, Ambewela, Digana and Polonnaruwa dairies, the Polgahawela cattle fodder production unit and the head office, the accumulated depreciation value of property, plant and equipment as at 31 December 2020 is Rs.3,720,476,766. But as per Note No. 02 of the Company's Statement of Financial position it was Rs.3,724,190,410 and Rs.3,713,644 differences was observed.	depreciation of Rs.3,200,000 and Rs.500,521 has been shown in the property plant and equipment note, and Rs.12,525 of provision for depreciation that is relevant to the Tunip Lanka account is not shown in the relevant account, and it will be correct in the 2021 accounts.	financial position should be equal to the sum of depreciation of factories, fodder production unit and head office.
(c)	According to the company's property, plant and equipment policy, the useful life of buildings are with a range of 20 to 25 years and the useful life of plant and equipment is the range of 04 to 30 years. As a result, the economic useful life could not be determined with certainty. And according to note No. 1.3.1.C related to the company's financial statements of the year under review, the depreciation period of fixed assets such as furniture and fixtures, laboratory equipment, motor vehicles, keys and equipment, office equipment, computers, and bottle refrigerators had been changed compared to the previous year. The required disclosures were not made in the financial statements about those changes, and the Board of Directors approval and reason for that were also not submitted to the audit.	The Economic Effective Life had been different due to a typographical error.	The useful life of the asset should be clearly identified, and necessary disclosures should be made in the financial statement about changes in depreciation policy. The Board of Directors' approval for it should be submitted to the audit
(d)	As per the balance sheets of the final financial statements of each factory as at 31 December 2020 of the company, the cost of property, plant, and equipment was Rs.9,351,000,903, but according to the property, plant, and equipment note of the company's statement of financial position, the cost was Rs.9,354,200,784. An Rs.3, 199,881 differences was observed.	The opening balance in the property, plant, and equipment in the note of the statement of financial position is shown in excess of Rs.3,200,000	The cost of property, plant and equipment should be equal to the value in the factory financial statements and the company's financial statement.
(e)	Although the property plant and equipment net balance of Rs.5,630,010,374 shown in the financial statement of the year under review, the company had not carried out a physical verification of the property, plant, and equipment. Also, the company	A fixed asset register is maintained at the Colombo Dairy Factory.	A physical verification of property, plant and equipment should be carried out by the company and a fixed

	had not maintained a proper fixed asset register for factories other than the head office, Colombo, and Polonnaruwa Dairy factories. Therefore, the accuracy, cost, existence, ownership of fixed assets, correctness of depreciation calculations, cost of fixed assets removed, depreciation and accruals for the year, etc. could not be verified during the audit.		asset register also should be maintained properly for the factories.
(f)	Rs.3, 197,074 was spent for the construction of Ambewela Dairy Factory under the ongoing program number 4 as per the company's statement of consolidated financial position under non-current assets for the year under review, but that cost was not shown in the financial statements of Ambewela Dairy Factory.	It is agreed to correct the value of Rs.3, 197,074/- stated in the financial statements of the factory in respect of expenses incurred in the year under review.	The cost incurred for construction in the year under review should be shown in the financial statements of the factory,
(g)	The equipment had been brought for the construction of Badalgama New Milk Factory for 279,206.99 Euros, or Rs.56, 446,190, as 60 percent of the total cost and 30 percent as deductions from the initial advance amounting to 139,603.50 Euros, or Rs.28,223,096. The deductions for retention as a percentage of 10 percent are 46,534.50 Euros, or Rs.9,407,698, for a total amount of 465,344.99 Euros, or Rs.94,076,984 during the year under review. However, in the financial statements of the reviewed year, the total expenditure under the construction of the Badalgama factory in the work in progress in Note No. 04 was not transferred to the work in progress account. Therefore, work in progress and long term debt has understated by Rs.94,076,984	Agree to adjust the accounts.	The total expenditure incurred on work in progress during the year under review should be transferred to the work in progress account.
(h)	The amount paid for construction and machinery in factories as work in progress since the beginning of the year before the year under review is Rs.827, 754,229 including 5 balances. During the year under review, no expenditure was paid for the same. At the end of the year, those balances had not been capitalized and As these machines and constructions are carried out on a loan basis, the planned operations have not been able to be carried out since 4 years, so the loan amount obtained was only an expense for the government.	Some of these assets have already been put to use and are shown in work-in-progress due to an existing issue in the relevant completion certificates. The matter has been brought to the attention of the engineering section	Work in progress should be completed and capitalized.

(i)	The company's dollar deposit matures on July 06 of the year under review and the interest income on that date was Rs.26,456,514 as per Central Bank exchange rates. Interest income for 188 days of the year under review was Rs.13,589,685 and for the remaining 178 days of the year under review as interest income of Rs.8,134,012. Thus, the total interest income for the year is Rs.21,723,697 but according to the financial statements the dollar deposit interest is Rs.31, 134,260. So Rs.9, 410,563 more income had been accounted for. Since Rs.17,340,571 was accounted as interest income receivable, fixed deposit interest income receivable was over-accounted by Rs.9,206,559.	The company's dollar fixed deposit matures on 6 July and the interest income due on that date is dollar144,114.36. For that, the calculation document has been provided to you. Interest due from 06.07.2019 to 31.12.2019 is dollar 70,482.16 and Interest due from 01.01.2020 to 05.07.2020 is dollar 73,632.20.	Interest income and interest receivable for the period under review should be properly accounted for in respect of dollar deposits.
(j)	During the year under review, the total value of raw milk purchase cost, packaging material cost, machinery and building repair cost and insurance cost included in the financial statements was 6,417,291,006 and as per the factory accounts value was the Rs.6,422,674,358. There was a difference of Rs.5,383,352. And when comparing those values with last year, there was a significant variation of 14 percent to 354 percent.	The relevant balances were extracted from the factory accounts and these balances can be checked in the Excel account copy.	The cost of sales shown in the financial statements should be the same as the cost of sales in the factory accounts.
(k)	Trade Creditor net balance shown under Head Office in Trade and Other Payable Schedule is Rs.260,618,242, as per the head office creditor balance list, the total net balance was Rs.244,950,678, so a difference of Rs.15,667,564 was observed.	It will be find and correct the difference between the Trade Creditor Net Balance and Head Office Creditor Balance List	The head office creditor balances should be equal to the balances shown in the trade and other payables schedule.
(l)	According to the computer sheets submitted in relation to the other payable balance, the balance of Polonnaruwa Dairy Factory included a balance of Rs.2,180,689, but there was no such balance in the financial statements of Polonnaruwa Dairy Factory.	In the final accounts, the relevant balances are shown under "Creditors & Accruals" in the accounts for the respective factories.	Other payables in the factory's financial statements should be the same as the company's financial statements,
(m)	In the company's statement of financial position, for the trade and other payable balance of Rs.36,288,829 in the Polonnaruwa factory, for the balance of Rs.19,423,807 in the Ambewela factory and For the balance of Rs.18,535,923 in the Digana factory, a creditor balance list and a creditor age analysis were not submitted to the audit.	Due to the fact that the balance of the Digana factory has existed for a long time, it is difficult to find the necessary data.	An age analysis for trade and other payable balances should be submitted to the audit.

		Here mentioned accrued expenses of Rs.34,349,303.00 and the other bonuses of Rs.2,180,689.00 is an opening balance.	
(n)	Although the employee debtor balance in the financial statement was Rs.164,864,339, according to the schedule submitted for audit, the balance was Rs.163,505,964 and was a difference of Rs.1,358,375 and according to factory accounts, the balance was Rs.164,448,503,which was a difference of Rs.415,836.	Answers were not provided.	The employee debtor balance in the financial statement should be the same as in the schedule and factory accounts.
(o)	Rs.109, 295,614 was credited to Retirement Benefit Liability Account as actuarial Loss of Retirement Benefit obligation and debited to Other Comprehensive Income Statement and the same value was also credited to Cost of Sales. Accordingly, in the year under review, the cost of sales had decreased by that value and the profit had increased.	Adjustments to the statement of other comprehensive income related to retirement benefits had been deducted from cost of sales. From 2021 this balance is accounted for separately and not adjusted to cost of sales.	Actuarial loss of Retirement benefit obligation must be properly accounted for
(p)	According to the letter of Treasury Operations Department No. TO/REV/05/33/6 and letter dated 27 September 2023, commitment charges amounting to Rs.56,821,121 were charged on the unused loan balance from the loan given for the factory modernization project. No adjustments were made.	This balance has capitalized in 2021 and this adjustment was not made in 2020.	The commitment charges should be accounted for as a liability in the financial statements.
(q)	In order to calculate the deferred tax, the taxable temporary differences of the company's assets should be Rs.4,283,757,781 as the balance, but according to the deferred tax calculation schedule submitted to the audit, the taxable temporary differences were up to Rs.4,043,212,846 as the balance, so it is less than Rs.240,544,935. Therefore, the related deferred tax liability was understated by Rs.43, 298,088.	If the manner of extracting this balance can be given separately according to the factories, then a corresponding document can be submitted.	Deferred tax liability should be accurately calculated and accounted for.
(r)	According to the income tax calculation report of EY Company in the reviewed year, the value of tax loss carried forward is Rs.5,983,567,629, but	While calculating the deferred tax, Rs. 5,983,567,629.00 has	Deferred tax liability and asset should be accurately calculated

	according to Note No.14, when calculating the deferred tax loss value was taken as Rs.5,813,714,649,so a difference of Rs.169,852,980 was observed. Therefore, the related deferred tax asset was calculated less by Rs.30, 573,536. In Note No. 24.1 of the financial statements, the net value that can be allowed in the tax expense calculation for the year is stated as Rs.790,669,720, but according to the income tax calculation report, that value is Rs.668,740,389 and there was a difference of Rs.121, 929,331. Moreover, the amount of Rs.278,981,206 accounted for as impairment provision for money due from the government was not considered in the calculation of deferred tax assets, so the deferred tax asset was calculated lower by Rs.50,216,617.	been taken as the tax loss.	and accounted for.
(s)	Rs.15,699,277 worth Unused milk powder packaging stock that existed before the year 2016 remained in Ambewela Factory; they were not recognized as obsolete stock as at 31 December 2020. And Rs.38,711,150 worth slow-release engineering stock that exist over 20 years and Rs.42,237,877 worth slow-release stock of general stock and unrecognizable stocks were in the final stock of the company. Also, the engineering stock value of Digana factory and the engineering stock value of Polonnaruwa factory was under calculated by Rs.311,755 and Rs.12,679,161 respectively and 08 stock items were over calculated by Rs.12,715. Also, an allotment balance of Rs.12,096,362 from previous years was deducted from the stock without settlement.	From this milk powder packaging stock, an amount of 2,657 kg has been used for the production of milk powder on 08.09.2022. The remaining stock of milk powder packs has been identified as unusable stock.	Unused milk powder packages should be identified as obsolete stock and the nature of the stock should be identified and properly valued. Unusable stock items should be disposed of or auctioned.
(t)	As per the schedule submitted by the company the value of stock issued for free was Rs.16,405,193, but in the financial statements the value of stock issued for free was 13,568,166 and there was a difference of Rs.2,837,027. Although the finished stock included in the final stock of Digana factory is Rs.7,984,542 and the balance of unfinished stock is Rs.8,616,684, according to the schedule submitted to the audit, the balances are Rs.7,430,582 and Rs.7,932,019 respectively, of which Rs.553,960 and Rs.684,665 A difference was observed.	If the method of extracting these balances can be provided separately by factories, then a corresponding document can be submitted	The stock value issued free as per the financial statement and the schedule should be equal and the finished stock in transit schedule should be equal as per the financial statement.

(u)	As the Motor Vehicles were depreciated more by Rs.6,107,960 in the year under review, the profit of the year under review was represented less than that value. As this Motor Vehicle had been depreciated more by Rs.2, 343,300 in the previous year, therefore the accumulated depreciation was overstated by Rs.8, 451,259 and the accumulated profit was understated by the same amount.	Answers had not been given.	Motor Vehicle depreciation should be calculated and accounted correctly.
(v)	Although the decrease in the balance of trade and other receivable was Rs.116,129,364, the same value in the cash flow statement was Rs.108,094,364, which was a difference of Rs.8,035,000.	In fixed assets, a balance of Rs.8, 035,000.00 has been shown under the purchase of motor vehicle, which is a balance shown under advances made in previous years. That capitalization is shown under changes in working capital in the statement of cash flows.	The decrease in the balance of trade and other receivables should be recorded correctly in the cash flow statement.
(w)	In the cash flow statement of the year under review, Rs.13,321,663 was shown as amortization for the right to use assets, but the related comparative values of the previous year were not shown.	The company has adopted this accounting standard for the first time in this year.	Comparative figures for the previous year should be shown for assets held for use in the statement of cash flows.
(x)	By the end of the year, 486,007.88 Euros remained to be covered by the initial advance related to the construction of the new Badalgama dairy factory and the importation of machinery and equipment. Although the amount calculated based on the year-end foreign exchange exchange balance of 225.54 (1 Euro = Rs.225.54) was Rs.109,614,217, the reviewed year's opening balance of Rs.139,152,682 was shown in the accounts as the year-end balance. Therefore, value of long term advances were overestimated by Rs.29,538,465.	Agree to adjust the accounts.	Long term advances should be properly valued and accounted.
(y)	3 balances amounting to Rs.253,328 which are not comes under cash and cash equivalents in the bank balances have not been settled as at 31 December 2020.	In the bank balance of Digana factory, the value of Rs.159,706.00 indicated as Pan Asia Bank and Rs.4,256.00 indicated as stale	Unidentified balances should be settled promptly.

		cheque, which are not included under cash and cash equivalents, have been mentioned under receivables in the year-end accounts of the year 2021.	
(z)	According to the schedule submitted to the audit, out of the head office's prepayment balance of Rs.18,472,541, the balance of Rs.12,881,934 over 5 years had not been settled even on 31 December 2020 and there was a credit balance of Rs.307,361 in the total balance. Also, according to the schedule, the balance was Rs.18,472,541, but according to the financial statements, the balance was Rs.11,819,250, and a difference of Rs.6,653,291 was observed.	The reason for the credit balance of Rs.307,361.00 included in the total balance is the prepayment balance related to the Petroleum Corporation which was not settled in the correct manner. The necessary steps were taken to correct those credit balances in the year 2021 with special approval. The difference of Rs.6,653,291.00 is due to not issuing G.R.N. from time to time.	The prepayment balance should be settled and the financial statements and schedule balances should be the same.

1.6 Accounts Receivable and Accounts Payable

1.6.1 Accounts Receivable

	Audit Observation	Comments of the management	Recommendation
(a)	Advances amounting to Rs.1,268,432 for the purchases of the Ambewela factory in the years 2009, 2010, 2011, 2015, 2017 and 2018 had not been settled until 31 December 2020. Out of the miscellaneous debtor balance of Rs.3,039,417, the uncollectible balance from 03 to 17 years was Rs.2,739,197. The debtor balances were not settled by cashing the bank guarantees kept on behalf of those debtors.	Legal action has been taken for debtor balances that cannot be collected for more than three years.	Advances given for purchases should be settled and the balance owed should be settled by enchasing bank guarantees.
(b)	According to the debtor age analysis of Polgahawela factory, the cattle feed debtor balance between 04 and 16 years was Rs.3,306,178, which was 18 percent of the total cattle feed debtor balance, and the transport debtor balance between 11 and 16 years was Rs.4,648,233. These balances are outstanding	Cattle feed is issued on the basis of recovery from the amount paid by the dairy farmers for the milk supplied to Milco. If a farmer buys cattle fodder and then stops supplying milk to the company, the company will not	Arrangements should be made to recover outstanding debtor balances.

	debtor balances and remained uncollected.	be able to collect the money due for cattle fodder.	
(c)	The total debtor balance of the Polonnaruwa factory was Rs.52,488,032, of which Rs.50,441,873 were sales exceeding 06 months. Although the normal credit sales settlement period of the factory is 30 days from the date of invoice, without making such recovery, re-sales were made to the same institutions amounting to Rs.9,005 in the year 2018 for private institute and Rs.534,140 in the year 2018 and Rs.40,875,996 in the year 2019 to the Ministry of Education. Bank guarantees were not obtained for sales made to the Ministry of Education.	Regarding the arrears amounting to Rs.9,005.00 from the year 2018, the concerned private sector was informed. All the charges to the Ministry of Education for the goods issued in the year 2018 amounting to Rs.534,140.00 and the goods issued in the year 2019 amounting to Rs.40,875996.00 were made through the head office.	Arrangements should be made to recover long-standing debtor balances and bank guarantee should be obtained for sales on credit.
(d)	The advance balance of Rs.958,973, which was included in the sum of advance balance Rs.6,896,851of the head office in the year 2017, 2018 and 2019, was not settled until 31 December, 2020. Further, an advance of Rs.3,049,500 was paid to the National Livestock Development Board on 28 October 2020 for the purchase of dairy cows, but the goods receive note (GRN) remained unsettled without any action due to disagreement with the invoice.The advance balance of Rs.724,900 included in the above advance balance of Rs.6,896,851 was not settled till 15 August 2023.	Rs.3,049,500.00 has been paid as excess amount while buying heifers. But according to the invoices on 23.12.2020, the price of the animals was Rs.3,824,460.00. (Because the weight has increased at the time of purchase) But as per the relevant G.R.N. number 3004, value was Rs.3,049,500.00. Since it is Rs.774,960.00 less than the price of the invoices, it has been informed to settle the advance amount subject to the approval of the relevant parties.	Action should be taken to recover the long lasting advance balances.
(e)	Action had not been taken regarding the balance of Rs.94,333,which was a long-standing amount due from the government in the financial statements as at 31 December 2020.	Received from the finance department during the Audit Committee meeting. The relevant recommendations are being drafted and the Board of Directors approval is being done.	Action should be taken to recover the receivable balances.

1.6.2 Accounts Payables

	Audit Observation	Comments of the management	Recommendation
(a)	The balance of Rs.2,108,063 owed to the National Milk Board under the interest-free loan, which has existed for a long time, had not been settled even at the end of the year under review.	A non-moving balances schedule is referred to the Audit Committee for approval, and the relevant adjustments will be made subject to that approval.	Action should be taken to settle the old debt balances.

(b)	In relation to the trade creditor balance included in the company's financial position note No. 18, submitted to the audit, and according to the head office's creditors age analysis, it was observed that the net creditors from 01 to 05 years are Rs.5,825,286 and the net creditors from more than 05 years are Rs.6,434,020.	This has been submitted to the Audit Committee of the institution	Action should be taken to settle old debt balances.

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

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Public Enterprises Circular No. PED/12			
	(i) Section 6.5.1	Although the financial statements and draft annual report should be submitted to the Auditor General within 60 days after the end of the accounting year, the financial statements of the year 2020 were submitted on 11 August 2023. Accordingly, there was a delay of 910 days.	Answer had not been given.	Financial statements and draft annual report should be submitted to the Auditor General as per Treasury Circulars.
	(ii)Section 4.2.6	Performance reports and progress reports should be prepared and submitted, but such reports were not submitted for the year 2020.	Answer had not been given.	Performance reports and progress reports should be prepared and submitted as per As per Treasury circulars.
	(iii) Section 5.1.2	The organizational structure and performance indicators that should be included in the Business plan had not been included in the Business plan prepared for 2019 and 2020.	Answer had not been given.	The organizational structure and performance indicators to be included in the corporate plan should be included in the business plan.

(b) Public Finance Circular No. 01/2014 dated 17 February 2014			
Section 5(2)	The annual budget statement and cash flow statement, which should be included in the prepared action plan, and a debt repayment plan for the year had not been prepared.	Answer had not been given.	The items mentioned in the circular should be included in the action plan.

2. Financial Review

2.1 Financial Result

The operating result for the year under review resulted in profit of Rs.225,756,290 as compared with the corresponding loss of Rs.862,714,548. Accordingly, an increase of profit of Rs.1,088,470,838 was observed in the financial result. This increase in profit was mainly due to increase in income and decrease in cost of sales.

2.2 Ratio Analysis

Current assets ratio, quick ratio, gross profit ratio were 1.52, 0.785 and 12.62% respectively in the year under review and the same ratios were 1.09, 0.61 and 3.84% respectively in the previous year. Accordingly, it was observed that the ratio of current and quick assets is not at an optimal level, which may lead to a working capital problem.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the management	Recommendation
(a)	In the provision for income tax balance of the head office included in the company's financial statements, there is a provision balance made for income tax penalties amounting to Rs.8, 425,296 which has existed for many years and had not been settled even at the end of the year under review.	This has been submitted to the audit committee of the institution.	Action should be taken to settle the income tax penalties.
(b)	Regarding current account number 2065230 of Ambewela Factory, according to the bank reconciliation statement, the balance in the cash book was Rs.6,812,986, but in the financial statements, the balance was Rs.6,763,927, and there was a difference of Rs.49,050. Regarding Polonnaruwa factory account number 005100160000970, according to the bank reconciliation statement, the balance in the cash book was Rs.6,392,960, but in the financial statements, the balance was Rs.6,252,967 and there was a difference of Rs.139,993.	Here, the receipt with the value of Rs.138,982.64, which is the amount of cash in hand on 31.12.2020, has been banked the next day. That balance and another Rs.1,010.36 amount has been corrected under J/ 637 in the year 2021.	Reasons for change in cash balance should be investigated and bank reconciliation statements should be prepared correctly.

3.2 Operational Inefficiencies

	Audit Observation	Comments of the management	Recommendation
(a)	The following observations are made regarding the production of milk powder unfit for human consumption.		
(i)	From July 2017, the Ambewela new milk powder plant had started production and from that date to 18 January 2018, 720 metric tons of milk powder costing Rs.475.2 million were defective and unfit for human consumption, according to the company's laboratory reports. It had been confirmed and according to the inspection done by the Peradeniya Gannoruwa Veterinary Research Institute, the institute had informed on 07 August 2018 that this milk powder is suitable to be used as an ingredient for fodder for animals. After receiving complaints from customers, 666,075 kg of the milk powder stock that was brought back to the warehouse was still in the warehouse as of 31 December 2020, due to which other operational activities of the warehouse were disrupted and no disciplinary investigation was conducted regarding this loss.	Even if the stock is perishable and cannot be sold, such stock cannot be disposed of without proper procedure.	A disciplinary investigation should be conducted regarding the loss that has occurred and the loss should be recovered from the responsible parties
(ii)	According to sub-clauses 1.2.1 (c) of the Procurement Guidelines, bids shall not create or imply restrictions on competition, and any interested parties shall be allowed to participate in the bids. But on the contrary, it was observed that the bidders were limited by the conditions that "the entire stock of milk powder should be purchased at once" in the letter inviting bids to sell the stock of 666,075 kg of milk powder unfit for human consumption as an ingredient for animal feed, and therefore the above stock was still in stock as on 31December 2020.	This stock of milk powder has been sold by now. The Audit Committee of the Ministry is conducting an audit regarding the relevant tenders.	According to the Procurement Guidelines, competition should not create or be implied to be restrictive.

3.3 Procurement Management

	Audit Observation	Comments of the Management	Recommendation
(a)	For the establishment of Badalgama Milk Processing Factory, a contract value of Rs.9,718,217,432 (63,935,641 Euros) was entered into with a foreign contract company in 2016 and it was scheduled to be completed in 2019. As at 31 December 2020, Rs. 11,672,291,523 had been spent and the project was	The procurement of this project was not done by Milco but by the Treasury and "CANC". Due to that, comment cannot be	23 of the Procurement Guidelines Appendix, Section 3 only applies to projects where contractors with special technical expertise

	being implemented. The contract for the construction of the Badalgama Dairy Factory was awarded to a foreign construction company outside of the government's procurement guidelines. This project has been implemented as an Unsolicited Project and the related procurement guidelines under Section 3 of Supplement 23 state that only projects where contractors with special technical knowledge cannot be found can be implemented as Unsolicited Projects. But since the construction of such a factory has the possibility of finding a contractor through international tenders, the contracted minimum bid of Rs.9,718,217,432 (€63,935,641) for the construction cost could not be accepted. Although it is estimated that the dairy factory needs 400,000 liters of liquid milk per day, currently the company can collect only 200,000 liters of liquid milk per day for the other 04 active factories in Ambewela, Polonnaruwa, Digana and Colombo. Therefore, it was observed that the machines of this Badalgama processing factory could not be used at full capacity.	expressed in this regard.	cannot be found. It should be implemented as a no-bid project and arrangements should be made to use the factory machines at full capacity.
(b)	The procurement files containing the details of the relevant payments for the inspection of the procurement activities under construction of the cold storage of the Polonnaruwa Dairy Factory were applied for through letter No. FLS/C/MILCO/01/2020/2023/Info/01 dated 21 August 2023 but had not been submitted for audit. Due to the limitation of the scope of the audit, Rs.16,169,330 the audit had not been able to verify the related payments.	I further inform that all payments and other documents related to cold storage construction works and procurement works of Polonnaruwa Dairy Factory were done by the head office.	The relevant procurement files should be submitted for audit to check the procurement activities.