

## **Mahaweli Livestock and Agro Enterprises (Private) Limited - 2021**

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### **1. Financial statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Mahaweli Livestock and Agro Enterprises (Private) Limited for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity, and cash flow statement for the year then ended and notes to 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 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 2021, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium-sized Enterprises.

#### **1.2 Basis for Qualified Opinion**

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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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standard for Small and Medium-sized Enterprises and for such internal control as management determines 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

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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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 audit 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 audit 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;
- 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

The following observations are made.

Non-compliance with Reference to the Standard	Relevant	Comment of the Management	Recommendation
a) Gratuity payments totalling Rs.561,602 that should have been considered as a cash outflow in the cash flow statement in terms of Paragraph 7.4(d) of the Sri Lanka Accounting Standard for Small and Medium-sized Enterprises, had not been included in the cash flow statement.		Corrective measures will be taken in the ensuing year.	Action should be taken to correct the cash flow statement.
b) Payments of Rs.24,000 made for purchasing machines that should have been shown as a cash outflow under investment activities in the cash flow statement in terms of Paragraph 7.5 (a) of the Sri Lanka Accounting Standard for Small and Medium-sized Enterprises, had been shown as a cash inflow.		- Do.	- Do.
c) The interest income through investment activities should have been shown under investment activities after being deducted from the pre-tax profit in terms of Paragraph 7.8(c) of the Sri Lanka Accounting Standard for Small and Medium-sized Enterprises. However, that value had not been added to the pre-tax profit.		Corrective measures will be taken in the ensuing year.	- Do.
d) According to Paragraph 7.4 (a) of the Sri Lanka Accounting Standard for Small and Medium-sized Enterprises, changes in stocks should have been shown separately on the face of the cash flow statement. Nevertheless, changes in stocks totalling Rs.1,100,784 had not been shown separately in the cash flow statement.		- Do.	Accuracy should be ensured in preparing financial statements.

- e) As useful life of non-current assets had not been reviewed annually contrary to Paragraph 17.19 of the Sri Lanka Accounting Standard for Small and Medium-sized Enterprises, 19 vehicles owned by the Company costing Rs.7,800,562 had still been in use despite being fully depreciated. Action had not been taken to revise the estimated error occurred in that connection.
- It is informed that action will be taken to revalue the vehicles owned by the Company.
- Do.

### 1.5.2 Accounting Deficiencies

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The following observations are made.

Audit Observation -----	Comment of the Management -----	Recommendation -----
a) As a capital livestock valued at Rs.9,186,655 had been included in the opening stock balance and a capital livestock valued at Rs.8,423,475 had also been included in the closing stock balance when computing the sales cost, profit of the year had been understated by Rs.763,180.	Acknowledged. Corrective measures will be taken in the ensuing years.	Accuracy should be ensured in preparing the financial statements.
b) The value of trade and other receivables that should have been shown under changes in working capital in the cash flow statement, should be considered as a cash inflow. However, a sum of Rs.1,843,245 had been shown as a cash outflow.	Will be corrected in the ensuing year.	Accuracy should be ensured in preparing the financial statements.
c) The cost or revalued amount of an animal food store, pump house, two stores used for goats, a Toyota double cab pertaining to the farm in Girandurukotte along with a Mahendra tractor, a tractor trailer, and two wells used for cultivation pertaining to the farm in Damminna shown in the Register of Fixed Assets as currently in use, had not been included in the financial statements.	Those buildings had not been revalued in the year 2018, but included in the register of assets after being identified during the revaluation of assets in the year 2016. Action will be taken to assess those assets and show in the register of assets in the year 2022.	Accuracy should be ensured in preparing the financial statements.
d) The farms owned by the Company located in Niraviya, Thunkama, Kantale, Siddhapura, and Muthuwella had been vested in Mahaweli Authority during the period 2005-2010 without formally exchanging the documents. Nevertheless, 164 buildings and fittings costing Rs.25,073,083, 26 vehicles, 45 office equipment, 63 machineries, 03 generators,	Those assets belonged to the farms that had become out of scope of the Company's administration during the years 2005/2008 and 2010. As it had not been informed in writing when those farms had been reacquired by the Mahaweli	Action should be taken expeditiously to settle the assets.

and 260 furniture and fittings, pertaining to those farms, had further been shown in the accounts of the Company. The sum of Rs.1,873,629 being the value of annual depreciation on those assets, had not been brought to accounts. As neither the Mahaweli Authority nor the Company had verified the physical existence of those assets, the physical existence of the assets was not verified in the audit.

Authority, there existed no possibility of transferring the assets, and the Sri Lanka Mahaweli Authority was informed in that connection. Further action is being taken by the Mahaweli Authority at present in that regard, and corrective measures will be taken in the year 2022.

### 1.5.3 Suspense Accounts

Item	Amount	Period of Suspension	Comment of the Management	Recommendation
	<b>Rs.</b>			
A balance of Rs. 617,513 had been shown in the suspense account under debtor balances.	617,513	04 Years.	This balance will be corrected in the year 2022.	Action should be taken promptly to settle the suspense account.

### 1.5.4 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence Not Presented	Comment of the Management	Recommendation
	<b>Rs.</b>			
a) Payable Nation Building Tax	285,185	Confirmation of balances, and tax certificates.	Those balances were brought forward since 2021. It is noted to take action in that regard in the ensuing year.	Measures should be taken for the confirmation of balances to be directly obtained by the Audit. Action should be taken to settle them.
b) Payable Value Added Tax	2,991,095			
c) Advances payable to the Department of Animal Production and Health.	165,600	Confirmation of balances.	Will be presented in the ensuing year.	- Do
d) Advances receivable from the Department of Animal Production and Health.	170,092			

<p>e) Balances of the interim farm, Damminna.</p>	<p>1,908,021</p>	<p>Confirmation of balances.</p>	<p>The balance of Rs.1,908,021 relating to the farm in Damminna was the amounts retained for adjusting the expenses incurred for Maha season, to the year 2022. This will be corrected in the year 2022.</p>	<p>- Do.</p>
<p>f) General Reserve</p>				
<ul style="list-style-type: none"> <li>• Mahaweli Economic Agency</li> <li>• Milk Development Fund, Kotmale</li> <li>• Capital grants from the European Economic Commission</li> <li>• Foreign Grant</li> </ul>	<p>403,918,731</p> <p>2,900,000</p> <p>3,583,706</p> <p>5,729,782</p>	<p>Evidence to verify the value.</p> <p>Documents required to account as capital grants.</p>	<p>Those balances were brought forward since the year 1999. The Company does not possess a letter which informed in that connection. At the time of being transformed into a Company, no shares had been issued with respect to those balances. Action will be taken to inform the Mahaweli Authority again in that connection in the year 2022.</p>	<p>- Do</p>

## 1.6 Accounts Receivable and Payable

### 1.6.1 Funds Receivable

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) The debtor balance of Rs.5,820,430 shown as “Ministry of Irrigation- Niraviya Farm” in the financial statements of the Company remained due over a period of 10 years. It was revealed to the Audit that a herd of animals belonging to the Company had been given to the Mahaweli Authority in the year 2010, and the Authority had provided them for the National Livestock Development Board. Action had not been taken even in the year under review either to recover or settle the said loan.	The Mahaweli Authority has continuously been informed in that regard through letters. It is informed that further action will be taken in this connection in the ensuing year.	Action should be taken for the expeditious recovery of dues.
(b) According to financial statements of the Zone “H” of Sri Lanka Mahaweli Authority, the creditors balance of the Mahaweli Livestock and Agro Enterprises (Private) Limited, amounted to Rs.5,373,970 whereas the same amounted to Rs.5,820,430 as per financial statements of the Company, thus observing a difference of Rs.446,460.	The said balance of Rs.446,460 was the value of production raw materials that had belonged to the Company when the Company had been taken over by the Moragahakanda-Kalugaga Project.	Action should be taken without delay to settle the balances.

### 1.6.2 Funds Payable

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
A sum of Rs.1,435,542 out of the salaries in arrears payable to the employees as at 31 December 2020, a sum of Rs.312,054 out of the sum payable to the Employees’ Provident Fund in favor of those salaries in arrears, and a sum of Rs.46,808 out of the sum payable to the Employees' Trust Fund, had been written off in the year under review without being approved by the Board of Directors.	Will be obtained in the ensuing year.	Action should be taken without delay to pay the payable amount and obtain the approval of the Board of Directors.

## 1.7 Non-compliances with Laws, Rules, Regulations, and Management Decisions

<b>Reference to Laws, Rules, and Regulations, etc.</b>	<b>Non-compliance</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Section 6.5.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.	The draft annual report had not been furnished together with the financial statements of the year under review.	Not commented.	Action should be taken in accordance with the Circular.

## 1.8 Management of Funds

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) The savings account with a balance of Rs.89,412 being maintained at the DFCC Bank, remained dormant over a period of 07 years.	Action will be taken to restore the said account.	Action should be taken on dormant accounts in terms of the Financial Regulations.
(b) Instead of retaining enough funds at hand whilst the balance was banked, a sum of Rs.869,285 had been retained at hand by the end of the year under review.	It is informed that the said sum will be banked in due course.	Funds should be invested productively.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a loss of Rs.1,325,556 as compared to the corresponding loss of Rs.5,793,006 in the preceding year, thus observing an improvement of Rs.4,467,450 in the financial result. This improvement had mainly been attributed by the increase in operating revenue of the Company, and decrease in salaries and allowances of employees.

### 3. Operating Review

#### 3.1 Management Inefficiencies

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) 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 2021. All the 03 shares issued had been provided for 03 directors of another private company, whereas no share whatsoever of the Company had been given for the ownership of the Mahaweli Authority.	The Mahaweli Authority will be informed again in that connection and necessary action will be taken.	Action should be taken to issue shares to the Mahaweli Authority of Sri Lanka.
(b) Approval of the Board of Directors had not been obtained on the Action Plan presented to the Audit for the year under review.	It is informed that action will be taken to obtain approval of the Board of Directors in the ensuing year. It is kindly informed that the directors had looked into the functionality in accordance with the said Action Plan.	Action should be taken to obtain approval of the Board of Directors.

### 3.2 Operating Inefficiencies

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Although 12 key objectives had been mentioned in the Articles of Association of the Company, action had not been taken in respect of the objectives such as, small-scale and large-scale chicken farming; production of foods for chickens; breeding, sale, improvement, processing and export of cattle, pigs, and chickens, and conducting business activities involving fruits and cereals. Small-scale farming of cattle, chickens, pigs and goats was being done.	It is informed that action will be taken in accordance with the Articles of Association once the public-private partnership enterprise agreement is implemented by the Mahaweli Authority of Sri Lanka.	Necessary action should be taken to achieve the objectives mentioned in Articles of Association.
(b) Three vehicles owned by the Mahaweli Authority of Sri Lanka and being used by the Company that had been revalued to the sum of Rs.2,898,812 , a vehicle that had not been revalued, and the land in Dematagoda sum of Rs.14,929,159 owned by the Mahaweli Authority where the Head Office of the Company had been established, were shown under fixed assets in the financial statements of the Company. However, action had not been taken to take over those assets.	It is noted to inform the Mahaweli Authority even in the year 2022 in that connection, thus taking suitable action.	Action should be taken promptly to settle the assets.
(c) Action had not been taken even by March 2022 either to dispose or repair 312 items of unusable fixed assets that had been identified in the verification conducted in the year 2019 as being damaged, repairable, to be auctioned, broken or scrap.	Action will be taken to dispose in the ensuing year.	Action should be taken to dispose the assets.

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| (d) | Milk based products are manufactured in the processing plant in Girandurukotte farm using the same machines since the inception of the plant in the year 1986. There were issues relating to hygiene of the products due to reasons such as, dilapidated roof, rainwater leaking into the factory, dilapidated canals, and inefficient internal cleaning system.   | The agreement contains estimates for a new factory once the public-private partnership enterprise is implemented. However, the production process is continued at present with temporary repairs being done. The internal floor area of the factory has been repaired as was required by the Public Health Inspectors. | Corrective measures should be taken on issues relating to the hygiene of products.                             |
| (e) | The comparison of targeted production with the actual production under the activities executed at livestock division by the end of the year under review, indicated the lower values of 14 per cent for the production of broiler chicken, 24 per cent for the production of pork, 21 per cent for farming goats, and 47 per cent for farming cattle.  | Due to lack of capital for improving the livestock division, it is informed that action will be taken for improvement once the public-private partnerships become effective.   | Necessary Action should be taken to achieve the targeted production.   |
| (f) | Approval had been granted by the Director General of the Mahaweli Authority of Sri Lanka to use lease rents from the lands of the Company given on seasonal lease to the farmers for cultivating maize in the Maha season of 2020/21, to purchase a refrigerator container for storing meat and repair the broiler cages. Nevertheless, the sum of Rs.1,093,550 earned had been retained in the current account of the Company even by March 2022. | The broiler unit is not profitable at the present day. As such, taking action thereon has been delayed. It is informed that action will be taken in due course.  | The income earned should be spent productively on the objectives for which approval has been granted formally. |

### 3.3 Idle or Underutilized Property, Plant and Equipment

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The following observations are made.

<b>Audit Observation</b> -----	<b>Comment of the Management</b> -----	<b>Recommendation</b> -----
(a) Goods and constructions including barns for cattle and goats made in the years 2014 and 2015 at an expenditure of Rs.12,501,900 by Zone “C” of the Mahaweli Authority with a view to converting the farm maintained in Girandurukotte by the Company into a training center for poultry farming, had been assessed to the value of Rs.8,967,600, and handed over to this Company on 08 February 2016. As the	The Company does not have capital to convert the farm into a training center for poultry farming. Furthermore, the constructions had not been made for requirement of the Company. It is expected to convert those assets as per requirements of the Company	Methodologies should be prepared to make use of those constructions.

Company did not possess a specific plan of a methodology to make use of those constructions, such assets remained idle from the date of takeover. once the public-private partnership enterprises commence.

- (b) Fifty seven buildings of the poultry farm in Girandurukotte that had been constructed in the year 1986, were assessed in the year 2019 and brought to accounts, but 07 of those buildings had become completely dilapidated and remained unusable. It is noted to take necessary action on the 07 buildings in the ensuing year. Action should be taken to correct the values mentioned in financial statements.