

## **Mahaweli Livestock and Agro Enterprises (Private) Limited - 2022**

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### **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 2022 comprising the statement of financial position as at 31 December 2022 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 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 2022, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Enterprises.

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

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Enterprises and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

#### **1.4 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company ;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit Observations on the Preparation of Financial Statements

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

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) Even though assets revaluation profit which is a capital reserve should be shown separately according to the paragraph 17.15 of the Sri Lanka Accounting Standard for Small and Medium sized Enterprises, revaluation reserve arose from revaluing 04 vehicles amounted to Rs.8,750,000 had been shown as a recurrent reserve.	The capital balance of Rs.5,271,743 existing in the Company is a balance shown in the investments made by Mahaweli Authority of Sri Lanka to the Livestock Development Division. Therefore, it is shown as a recurrent reserve without adding to this balance.	Action should be taken to account for the revaluation reserve accurately according to the Accounting Standards.
(b) Even though 14 vehicles costing Rs. 4,454,750 had been continuously used by the Company despite being fully depreciated, the useful life and scrap value of the assets had not been reassessed to present the fair value in the financial statements as per the paragraph 17.19 of the Sri Lanka Accounting Standard for Small and Medium sized Enterprises	04 vehicles from these were revalued, and action have been taken by the Mahaweli Authority to sell 02 tractors and an IZUZU truck numbered 42-0832 out of the remaining vehicles. Haino Bowser No. 42-1470 and Isuzu Truck No. 41-5739 were sent to Madatugama garage in 2010 for repairs. The remaining 03 trailers will be revalued on 15 June 2023, and will be included in the accounts for the year 2023.	Fair value should be accounted for the assets which are fully depreciated but still being used according to the Accounting Standards.
(c) As per Section 07 of the Sri Lanka Accounting Standard for Small and Medium-sized Enterprises, the increase in payable balances amounted to Rs.847,968, which should be shown as cash inflow under the working capital changes, but was shown as a cash outflow of Rs. 2,629,523 in cash flow statements as at 31	Corrected from April 2023 accounts.	Cash flow statement should be prepared accurately by identifying cash inflows and outflows.

December 2022. The increase of Rs. 604,190 in trade and other receivables to be shown as a cash outflow had been shown as a cash inflow of Rs. 2,471,003. An increase in stock amounting to Rs. 1,627,813, gratuity payments amounting to Rs. 1,208,919, and the purchase of fixed assets amounting to Rs. 829,049 were not included in the cash flow statement.

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though the land of 1113 acres 0 rood and 37.76 perches in Girandurukotte farm and the land of 100 acres in Damminna farm had been used by the Company, the values of the lands had not been taken in to the accounts.	It has been indicated in the valuation report while valuing these assets, that the valuation should be used to start a Private Public Partnership only.	Action should be taken to assess the values of the lands and take them to the accounts.
(b) Niraviya Farm located in Thambuththegama, Kanthale farm, Siddhapura farm in Polonnaruwa, Muthuwella farm in Welikanda owned by the Company, had been vested in Mahaweli Authority during the period 2005-2010 without formally exchanging the documents. Nevertheless, 134 buildings and fittings, 26 vehicles, 45 office equipment, 63 plants and machinery, 03 generators, and 260 furniture and fittings costing Rs.22,336,573 owned by those farms were shown in the accounts, even though they had not been utilized by the Company.	Action are being taken to transfer those assets to Mahaweli Authority of Sri Lanka.	Action should be taken to remove the assets vested in Mahaweli Authority from the financial statements that have been shown in the financial statements of the Company.
(c) A contribution of Rs. 23,444,505 to be paid to the Employees Provident Fund for the period of 98 months from January 2013 to December 2022 had not been paid by the date of audit on 27 March 2023. According to Section 16 of the Employees Provident Fund Act No. 24 of 1971, relevant to it, a sum of Rs. 5,588,917 in surcharges payable had not been accounted for as a liability.	Action will be taken to calculate the surcharges and account for in the coming year.	Action should be taken to account for the Employees Provident Fund payable balances and surcharges and to settle those deposits immediately.

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| (d) | A contribution of Rs. 1,305,618 to be paid to the Employees Trust Fund for the period of 30 months from July 2020 to December 2022 had not been paid by the date of audit on 27 March 2023. According to Section 27 of the Employees Trust Fund Act No. 46 of 1980, relevant to it, a sum of Rs. 267,851 in surcharges payable had not been accounted for as a liability.                        | Action will be taken to calculate the surcharges and account for in the coming year.   | Action should be taken to account for the Employees Provident Fund payable balances and surcharges and to settle those balances immediately. |
| (e) | Due to the fact that the Company has continued to make adjustments to the previous year's profit instead of correctly identifying the income and expenses of the year, the losses of Rs.4,663,530, Rs.5,793,005 and Rs.1,325,555 in the audited financial statements of 2019, 2020 and 2021 had grown to Rs.16,028,032, Rs.7,987,195 and Rs.1,695,098 respectively by 28 percent to 244 percent. | Adjustments indicated as before 2020 are corrections of the suspense accounts.   | Action should be taken to prepare the financial statements by identifying the income and expenditure on accrued basis accurately.            |
| (f) | 26 vehicles owned by the Company whose net book value was shown as Rs.2,019,420 as at the end of the year under review had not been depreciated for the year.  | These vehicles are owned by Niraviya livestock farm and, the farm has left the Company's control from September 2010 and, since that date, these assets have not been depreciated as they are not in the possession of the Company. These assets will be transferred to the Mahaweli Authority of Sri Lanka by 30 June 2023. | The vehicles transferred to the Mahaweli Authority of Sri Lanka should be removed from the financial statements with effect from that date.  |
| (g) | A total of salary payable, Employees Provident Fund contribution payable and Employment Trust Fund contribution payable on behalf of the employees resigned from the service during 2003-2014 amounted to Rs. 565,763, had been adjusted against the loss as a prior year adjustment.  | Action will be taken to rectify this adjustment in next year.  | Action should be taken to remit to the relevant funds.   |

### 1.5.3 Lack of Documentary Evidence for Audit

Item	Amount Rs.	Audit Evidence Not Presented	Comments of the Management	Recommendation
(a) General Reserve		Adequate Information.	There are no balance certificates to be presented on behalf of these values and as of 1999 these balances were shown as investments.	Adequate information should be presented regarding these balances.
(i) Mahaweli Economic Agency	388,362,322			
(ii) Milk Development Fund, Kotmale	2,900,000			
(iii) Capital grants from the European Economic Commission	3,583,706			
(iv) Foreign Grants	5,729,782			
(b) Capital Reserve	5,271,743			
(c) Accounts Receivable				
(i) Receivable from Department of Animal Production and Health	174,092	Balance confirmation	Action will be taken to present it in the coming year.	Arrangements should be made to obtain the balance confirmation directly to the audit and action should be taken to recover the balances.
(ii) Receivable from Damminna inter farm	692,838	Balance confirmation		

## 1.6 Accounts Receivable and Payable

### 1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
According to the financial statements of the Company, the balance due to the Company from Mahaweli Authority of Sri Lanka was Rs.5,820,430, but according to the financial statements of the Authority, the balance due from the Authority was Rs.5,373,970, a difference of Rs.446,460 was observed.	The difference of Rs.446,460 in the balance of Rs.5,820,430 due from Mahaweli Authority of Sri Lanka is the value of raw materials and other stocks used for production on that day. Only the value of the animals has been taken into the Mahaweli Authority's accounts.	Adjustments should be made for the differences between the balances.

## 1.6.2 Accounts Payables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
According to the financial statements of the Company, there was no balance payable by the Company to the Mahaweli Authority of Sri Lanka, and according to the financial statements of the Authority, the balance due to the Authority was Rs.2,660,488 and a difference of Rs.2,660,488 was observed.	The Company does not have any balances due to Mahaweli Authority of Sri Lanka. A sum of Rs. 5.8 Mn to be recovered from Mahaweli Authority to the Company.	Differences should be corrected by comparing the books of the Company with the balance of the financial statements of Mahaweli Authority of Sri Lanka.

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

<b>Reference to Laws, Rules and Regulations, etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Section 2(1) and 102 of the Inland Revenue Act, No 24 of 2017	Actions had not been taken to register for the income tax or to be exempt from the tax by the Company.	Not commented.	Action should be taken to comply with the provisions of the Inland Revenue Act.
(b) Public Enterprises Circular No 01/2021 dated 16 November 2021			
(i) Section 6.6 of the operation manual	The Draft Annual Performance Report had not been submitted along with the financial statements.	Not commented.	Action should be taken to submit the Draft Annual Report along with the Financial Statements.
(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.	Not commented.	Director Board approval should be obtained for the Action Plan.
(c) Section 3.5 of the Public Enterprise Circular No 02/2013 dated 11 September 2013	Even though a gratuity payable of Rs.12,187,788 was identified, action had not been taken to deposit that amount to a separate account.	Not commented.	Gratuity payable amount should be deposited to a separate account.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review was a profit of Rs.167,815 as compared to the corresponding loss of Rs. 1,325,556 in the preceding year. Thus observing an improvement of Rs.1,493,371 in the financial result. Even though the cost of raw materials had been increased by Rs.19,106,253 and production salaries by Rs.2,348,769, the increase in sales income by Rs.22,797,396 was mainly caused to the above improvement of the financial result.

## 3. Operating Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Any action had not been taken by 27 March 2023, regarding the fixed assets amounted to Rs.9,453,140 which were identified as unusable in the verification of assets in the year 2019.	The written-down value of scrap material in asset verification in 2022 is Rs. 323,633. This waste material will be disposed of in the year 2023.	Action should be taken in accordance with the recommendations of the survey committee on scrap goods.
(b) 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 2022.	Action will be taken to issue the shares in the future.	Action should be taken to issue shares as required.
(c) 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. අමප/18/2083/803/031 dated 18 September 2018. There, even though a timeline of the work expected to be carried out in relation to the reorganization of the Company as a Public-Private Partnership was prepared, the work had not been carried out accordingly. After that the approval to reorganize the Company under a contract to a Public Private Management had been granted by the cabinet by Cabinet Decision No. අමප/21/2229/317/025-1 dated 18 January 2022, but the required steps had not been taken.	Action are being taken by the Mahaweli Authority of Sri Lanka on this Public-Private Partnership.	Arrangements should be made to reorganize by entering to a contract to a Public- Private Management according to the Cabinet decision.

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| (d) | Action had not been taken by the Company to take over 04 vehicles worth Rs. 8,156,000 belonging to the Mahaweli Authority of Sri Lanka that are currently being used. | Action will be taken to take over in future with the commencement of Public Private Partnership. | Necessary arrangements should be made to take possession of the assets given to the Company. |
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### 3.2 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>	
(a)	The financial progress of the goat rearing project implemented under the livestock sector was 69 percent, in the year under review while its physical progress was as low as 3.125 percent. The financial progress of the buffalo unit was 46 percent while its physical progress was 34 percent.	After restructuring as a Public Private Partnership, capital expenditure can be done and action will be taken to develop these sectors through that.	The action plan should be prepared on the basis of achievable goals and action should be taken to achieve the established goals.
(b)	Even though the Company had expected to earn an income of Rs. 3,627,000 by producing 10,480 liters of ice cream according to the Action Plan, Rs. 1,565,959 had been earned from 2,433 liters, and its physical progress was 23 percent and financial progress was 43 percent.	The income has decreased as there was a low demand for ice cream due to the economic situation in the country.	The Action Plan should be prepared on the basis of achievable goals and actions should be taken to achieve the established goals.
(c)	The expected income and expenditure from rice cultivation in Damminna Farm located at Dehiattakandiya was Rs.8,372,500 and Rs.4,230,000 respectively, while the actual income and expenditure were Rs.5,519,406 and Rs.7,989,998 respectively, the loss from rice cultivation was Rs.2,470,592. Even though the expected rice production through above paddy cultivation was 64,000 kilogram, the actual amount was 46,524 kilogram. Accordingly, the physical progress was 73 percent, the financial progress of income was 66 percent and the progress of expenditure was 189 percent.	Arrangements have been made to lease to an external person in the year 2023 considering the current situation.	The Action Plan should be prepared on the basis of achievable goals and action should be taken to achieve the established goals.
(d)	Even though the Company had estimated to sell the paddy yield obtained from paddy cultivation at Rs.130 per kg, 1 kg of paddy	It has become difficult to call prices for the sale of paddy. Since the price is indicated	Action should be taken to sell the products through competitive methods.

was sold at Rs.102 to a buyer selected from the prices obtained by telephone from 4 private companies without an open bid call.

only on the same day and that price is not valid for the next day, action has been taken to call for prices in front of a director and sell.

- (e) The Company had stopped the broiler meat production from the year 2022 and plans had not been made to buy broiler chickens from outside and sell according to the Action Plan of the year 2022. Despite this, broiler chickens had been purchased and sold by incurring a sum of Rs.6,335,767

Arrangements will be made to include it in the coming year.

The Action Plan should be prepared based on the expected goals to be achieved and should be followed accordingly.

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

Audit Observation	Comments of the Management	Recommendation
(a) Even though Goods and Constructions including barns for cattle and goats made in the years 2014 and 2015 by Zone “C” of the Mahaweli Authority 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 takeover.	Arrangements are being made for the use of these cattle sheds and other buildings in the year 2023.	Appropriate methods should be devised to effectively utilize these constructions and act accordingly.
(b) Even though 57 buildings of the poultry farm in Giradurukotte that had been constructed in the year 1986, were assessed in the year 2019 and brought to accounts, 07 of those buildings had not been utilized as they were in completely dilapidated condition. Milk based products are manufactured in the processing plant there using the same machines since the inception and there were issues relating to hygiene of the products due to reasons such as dilapidated floor and roof of the factory building, Rainwater leaking in to the factory, dilapidated drain system, weak internal cleaning system, and long-term use of the freezer and cold room without proper maintenance.	It will be checked in the physical verification in the year 2023 regarding the buildings of Girandurukotte Animal Farm, and further action will be taken.	Necessary repairs to equipment and machinery should be carried out. Dilapidated buildings should be inspected, and if they are in unusable condition, action should be taken to dispose of them with the approval of the Director Board.