

National Livestock Development Board – 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the National Livestock Development Board as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

The following matters were observed.

- (a) Even though 201 double cab motor vehicles/ jeeps, lorries, motor cycles and tractors and 20 double cabs motor vehicles granted by the Ministry of Agriculture used by the Head Office and for purposes of farms, in good running condition had been fully depreciated, action in terms of Sri Lanka Accounting Standard No. 16 had not been taken to revalue and account for them. This had not been disclosed in the financial statements.
- (b) Assets costing Rs.109,177,233 purchased during the years 2004 to 2007, fully depreciated but in continuous use had not been revalued and brought to account.

1.2.2 Accounting Deficiencies

The following matters were observed.

- (a) Even though the value of 498 cattle imported in the year under review amounting to Rs.288,503,235 had been brought to account, the value of 08 dead heads of cattle the value of new born calves had not been adjusted.
- (b) The book value of the closing stocks of the Milk Cattle Project which included the cumulative stock shortages as at the end of the year under review amounting to Rs.12,379,621 had been brought to account and as such the net profit for the year had been overstated by that amount.
- (c) The General Ledger in which 157 Debit Ledger Accounts valued at Rs.135,752,768 and 70 Credit Ledger Accounts valued at Rs.141,239,417 relating to the Milk Project are maintained had not been submitted to audit.

1.2.3 Unreconciled Control Accounts

The following matters were observed.

- (a) A difference of Rs.455,621 was observed between the closing balances of the preceding year and the opening balances of the year under review in relation to the property, plant and equipment shown in Note No. 06 of the financial statements.
- (b) The following differences were observed between the value of balance stocks shown in the Farm Accounts as at the end of the year under review and the related stock verification reports.

Particulars	According to Farm Accounts		According to Stock Verification Reports		Difference	
	Units	Value Rs.	Units	Value Rs.	Units	Value Rs.
Stocks of Coconuts of 10 Farms (Nuts)	1,409,810	23,209,669	1,775,928	23,807,619	366,118	597,950
Stock of Copra of 7 Farms (Kilogramme)	8,868	835,912	8,025	4,571,595	843	3,735,683
Stock of Livestock of 11 Farms (Animals)	17,497	47,349,599	16,125	36,983,449	1,372	10,366,150
					368,333	14,699,783

1.2.4 Unexplained Differences

According to the statement of tax computation, the tax and the economic service charge payable for the year 2012 amounted to Rs.19,007,523 and Rs.9,335,257 respectively whereas according to the income statement, those amounted to Rs.3,126,841 and Rs.2,633,345 respectively. The reasons for the difference had not been explained.

1.2.5 Accounts Receivable and Payable

The following matters were observed.

- (a) Action had not been taken for the recovery of a sum of Rs.2,092,750 receivable to the Maize Project from the year 2009 from the Kantale Branch of the Bank of

Ceylon and a sum of Rs.207,848 receivable from farmers on account of the sale of seed maize on credit basis.

- (b) Out of the loan of Rs.102,662,700 obtained from the Farmers' Trust Fund in the year 2003, a sum of Rs.2,550,000 only had been settled and the cumulative interest thereon as at the end of the year under review amounted to Rs.88,475,763.
- (c) Even though the approval of the Board of Directors had been received for the write off as bad debts a sum of Rs.1,070,435 receivable from the year 2009 on account of the chicks supplied to the farmers of the Hambantota area on the recommendation of the Ministry of Livestock and Rural Community Development, action thereon had not been taken.
- (d) A debtors balance amounting to Rs.2,770,787 older than 03 years relating to the Sales Stall of the Head Office had not been recovered.
- (e) Debtors older than 05 years amounting to Rs.300,038 and debtors old between 01 year to 03 years amounting to Rs.3,211,941 remained receivable to the Head Office and 02 farms from the Mahaweli Livestock Institution. Even though the recovery of those amounts remained uncertain due to the severe financial crisis faced by that institution, chicks valued at Rs.5,752,594 had been supplied on credit basis to that institution even in the year under review.
- (f) The trade debtors and the farm debtors older than 05 years of 05 farms amounted to Rs.481,820 and Rs.583,714 respectively and the Board had failed to recover the money.
- (g) The Board had failed to recover the debtors balance older than 05 years amounting to Rs.1,096,950 and the debtor balances old between 03 to 05 years amounting to Rs.3,026,675 recoverable from the brokers.

1.2.6 Lack of Evidence for Audit

The evidence indicated against the following items of account had not been furnished to audit.

<u>Particulars</u>	<u>Value</u> Rs.	<u>Evidence not made available</u>
i. An amount older than 05 years payable to Ceylon Grain Company	26,746,567	(i) Confirmation of Balances (ii) Details of the Transactions
ii. Unused Assets of the Maize Project	98,188	Board of Survey Reports
iii. Livestock Stocks of 15 Farms	108,584,823	Properly prepared Board of Survey Reports
iv. Stock of Coconuts of 6 Farms	17,055,180	- do -
v. Stocks of Copra of 7 Farms	901,792	- do -
vi. Prepayments (Expenses on rounding up straying Cattle and Goats.)	1,584,470	(i) Makeup of the Balance (ii) Number of Animals rounded up.

1.2.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
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	----- Rs. -----	
(a) Section 6 of the State Agricultural Corporations Act, No. 11 of 1972.		-- Even though the Board of Directors should comprise 07 members there were 08 Directors in the Board of Directors.
(b) Finance Act, No. 38 of 1971 – Sections 16(2)(a) and (b)	52,128,111	The concurrence of the Minister of Finance and the relevant Ministers had not been obtained before obtaining Bank Overdrafts.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
----- Financial Regulation 371	1,078,042	Even though advances obtained should be settled immediately after the completion of the purpose, the advances granted in the year 2011 to the officers of the Board and other institutions had been settled only in the year 2013.
Financial Regulation 1645		- Log Books had not been maintained for any of the motor vehicles of the Board.
(d) Treasury Circular No. 842 of 19 December 1978 - Paragraph 2.11 and 2.12 of the Third Schedule.		A Register of Fixed Assets had not been maintained in terms of the Circular.
(e) Public Enterprises Circular No. PED/12 of 02 June 2003.		
----- Section 6.5.1		- The draft Annual Report had not been presented with the financial statements.

Section 8.3.8	1,521,801	Donations had been made without the approval of the Cabinet of Ministers.
(f) Procurement Guidelines No. 08 of 25 January 2006 -----		
Section 2.14	972,000	(i) The contract had not been awarded to the lowest quotation of Rs.72,000 submitted by the janitorial service institution registered in the year 2011 and the janitorial services for the year had been awarded at Rs.81,000 per month to an unregistered institution which had not submitted quotations. A sum of Rs.972,000 had been paid in the year under review to that company for that service.
		(ii) The estimated value of the construction of the new restaurant, kitchen and the latrine system of the Melsiripura Farm amounted to Rs.10,612,035 and that needed the approval of the Minor Procurement Committee of the Ministry. Instead of obtaining such approval the construction works had been split and the construction work had been done on the recommendation of the Regional Procurement Committee.
(g) Board Circular No. 5/2007 of 07	3,920,000	Even though the approval of the Major

January 2007.

Procurement Committee should be obtained for the procurement of goods and services exceeding Rs.1 million, 02 procurements for carrying out repairs to motor vehicles had been executed under the approval of the Minor Procurement Committee.

1.2.8 Transactions not supported by Adequate Authority

The following matters were observed.

- (a) According to Sections 2.8.9 and 9.3.1(b) of the Procurement Guidelines dated 25 January 2006, repairs to motor vehicles costing more than Rs.200,000 should be done by obtaining the approval of the Secretary to the Line Ministry. Nevertheless such approval had not been obtained for the repairs of the 02 motor vehicles costing Rs.3,920,000 carried out during the year under review. The approval of the Technical Evaluation Committee had also not been obtained in that connection.
- (b) Seven farms had incurred expenditure of Rs.21,689,357 exceeding the estimated sum of Rs. 31,879,703 on sundry activities without obtaining the approval of the Head Office.
- (c) Even though the Kottukachchiya Farm had estimated for the sale of 18 buffaloes for meat, 70 buffaloes had been sold for meat for a sum of Rs.1,541,565. The reasons for the wide variances in the estimated numbers had not been examined by the management.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Board for the year under review had resulted in a surplus of Rs.26,294,245 as compared with the corresponding surplus of Rs.234,103,899 for the preceding year, thus indicating a deterioration of Rs.207,809,654 in the financial results. The increase of the cost of sales by a sum of Rs.244,946,408 had been the main reason for the deterioration of the financial results.

3. Operating Review

3.1 Performance

The following observations were made.

- (a) Out of the 31 Farms maintained by the Board, 16 Farms had reported net losses amounting to Rs.141,229,672.
- (b) Out of the total of 111 franchise sales stalls of the Board 18 Sales Stalls only had been in operation. The net loss of the Franchise Sales Project for the year under review amounted to Rs.2,624,826.
- (c) Out of the 152 sales stalls constructed under the Liquid Milk Project, the profit and the loss of the 82 stalls in operation had not been computed. New sales stalls had not been opened in the year under review.

- 3.2 Instances of action not taken in accordance with the estimate prepared and presented in the year under review were observed.

Rosetta Farm

A sum of Rs.858,761 had been spent on 03 Capital Objects not included in the estimate. Even though provision of Rs.1,439,000 had been made for 04 Capital Objects included in the estimate those activities had not been executed. Even though provision amounting to Rs.500,000 had been made for grass cultivation, it had not been done.

Kottukachchiya Farm

Even though income amounting to Rs.6,152,840 had been estimated from 03 animal projects and another project the actual income amounted to Rs.1,729,746.

Parasangawewa Farm

According to the estimates, income amounting Rs.4,673,000 had been expected from implementing 04 activities in the year under review. But, no income had been earned by implementing those activities. Even though an income of Rs.8,001,150 had been targeted from the sale of animals for rearing and for meat, and the sale of milk and milk toffees, the actual income amounted to Rs.1,748,083. The management had not examined the reasons for that.

- 3.3 Management Inefficiencies

(a) An extent of 150 acres from the Ridiyagama Farm had been taken over without authority by 98 persons for cultivation purposes. The Board had failed up to date to evict them from the farm.

- (b) The dividend of Rs.10 million payable to the General Treasury as notified by the letter dated 06 October 2009 of the Director General of Public Enterprises had not been paid up to date.
- (c) The interest free loan of Rs.50,000,000 obtained from the General Treasury in the year 1992 had not been settled even during the year under review.

3.4 Idle and Underutilized Assets

The following matters were observed.

- (a) The balances in 03 Bank Accounts of the Maize Project not in operation at present, dormant since June 2010 amounted to Rs.885,470.
- (b) The electric fence constructed at a cost of Rs.3,517,579 in the year 2011 for the Kantale Maize Project had become an idle asset as the project is not in operation.

3.5 Identified Losses

The following matters were observed.

- (a) Nine hundred and forty four animals of different kinds of 14 farms valued at Rs.2,207,692 had died.
- (b) Even though a van had been repaired in the year 2011 at a cost of Rs.582,240, it had been parked in a garage without being used up to 11 July 2013, the date of audit.
- (c) Income of Rs.75,000 had been lost due to allowing free use of the Weerawila Circuit Bungalow to external parties for 05 days.

3.6 Transactions of Contentious Nature

The following matters were observed.

- (a) The Head Office had paid a sum of Rs.200,000 to the contractor for the two air-conditioners installed in the new restaurant of the Melsiripura Farm and the Farm also had paid a sum of Rs.195,690 in that connection to a supplier.
- (b) Even though Department of Public Enterprises had granted the approval for the purchase of 03 double cab motor vehicles required for the transport of animal fodder and calves, a used double cab motor vehicle of assessed value of Rs.3,150,000 had been purchased on cash for Rs.3,850,000 without approval. That motor vehicle had not been used for the intended purpose since the date of purchase.
- (c) Gratuity provision of Rs.42,540 had been made in the year under review in respect of an employees who had left service in the year 2010. The age of two employees of the Welikanda Farm had been stated as 108 years and provision of Rs.68,066 had been made for their gratuity.

3.7 Deficiencies in Contract Administration

The following deficiencies were observed in connection with the construction of the new restaurant and kitchen of the Melsiripura Farm.

- (a) The detailed specifications of the doors and windows included in the aluminum works valued at Rs.2,870,962 of the construction of the new restaurant of the Melsiripura Farm had not been shown. As such it was not possible to examine whether those items of work had been done as specified.
- (b) According to the Final Payment Report, a sum of Rs.2,430,300 had been paid for fixing of two aluminum doors and seven aluminum windows and for the

aluminum partitioning of a part of the interior of the restaurant by installing 350 linear feet of aluminum. That had been removed later on a decision of the management and as such that expenditure had become fruitless.

- (c) A sum of Rs.820,852 had been paid to the contractor who constructed the restaurant for the construction of the kitchen without obtaining the approval of the Board of Directors for the estimate prepared with precise specifications.

3.8 Staff Administration

The following matters were observed.

- (a) There were 275 vacancies in the staff as at 31 December 2012 and those vacancies existed over periods ranging from 04 months to 30 months.
- (b) Five officers who had not fulfilled the qualifications required for the posts as specified in the Scheme of Recruitment had been recruited in the year under review.

4. Accountability and Good Governance

4.1 Corporate Plan

Even though a Corporate Plan for the years 2008 to 2012 had been prepared for the achievement of the Vision and Mission of the institution, it had not been timely reviewed and updated.

4.2 Action Plan

According to the Action Plan for the year under review, the progress of 19 activities of 13 Farms had been less than 50 per cent.

4.3 Procurement Plan

Even though a Procurement Plan for the year 2012 had been prepared, the approval of the Board of Directors had not been obtained for the plan and the constructions for the year 2012 had not been included in that plan.

4.4 Budgetary Control

The variances between the budget data and actual data ranged between 2 per cent and 134 per cent and as such the budget had not been made use of as an effective instrument of management control.

4.5 Tabling of Annual Reports

The Board had not tabled the Annual Reports for the years 2010 and 2011 in Parliament.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Fixed Assets Control
- (b) Contract Administration
- (c) Debtors and Creditors Control

- (d) Payment of Advances
- (e) Operating Management
- (f) Financial Management
- (g) Budgetary Control