

Mahaweli Livestock Enterprises Limited – 2015/2016

The audit of the financial statements of the Mahaweli Livestock Enterprises Limited for the year ended 31 March 2016 comprising the statement of financial position as at 31 March 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations on the operations of the company for the year under review which I consider should be presented to the parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report. In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice.

1.2 Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards.

1.4 Basis for Disclaimer of Opinion

- (a) Fixed assets of the Company were not coded and fixed assets register was not made available to audit for physical assets verification. Therefore, it was unable to verify the existence of Property, Plant and Equipment carrying at Rs.19,940,735 and the accuracy of depreciation thereon amounting to Rs.3,940,179 for the year under review
- (b) It was unable to observe the physical inventory count since Company had not invited for physical inventory counting and not received the inventory report of the period under review. Hence, it was unable to ascertain whether the inventory amounting to Rs.32,588,479 shown in the financial statements are stated at lower of cost and net realizable value.
- (c) Bank confirmations were not received in respect of two bank accounts maintain by the company which had favourable bank balance of Rs.1,994,461 and overdraft balance of Rs.626,494 as at the end of the year under review.
- (d) Detailed schedules and source documents such as invoices, good received notes etc., were not provided to audit to ascertain the accuracy and existence of the trade and other payable aggregating Rs.79,644,860 as at 31 March 2016.

- (e) The Company had not paid and remitted the Income Tax, Economic Service Charge (ESC) and National Building Tax (NBT) returns to the Department of Inland Revenue. The total outstanding balance from the assessment year 2006/2007 to 2015/2016 was Rs.24,140,168.
- (f) The update ledger relating to balance of head office debtor control account shown in the trial balance amounting to Rs.22, 805,110 was not submitted for audit.

2. Financial statements

2.1 Disclaimer Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No.07 of 2007, I state the followings:

- a.) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In my opinion:
 - I have not obtained all the information and explanations that were required for the audit as stated above and hence, I was unable to determine whether the proper accounting records had been kept by the Company.
 - Except for the effects of the matters described in the basis for Disclaimer of opinion section of my report the financial statements of the company comply with requirement of section 151 of the companies Act.No 07 of 2007.

2.3 Non- Compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non- compliance with Laws, Rules and Regulations were observed in audit.

Reference to laws, Rules and Regulations etc	Non- Compliances -----
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka Financial Regulation 1647	A vehicle list had not been maintained by the Company
(b) Treasury Circular No. IAI/2002/02 dated 28 November 2002	Computer equipment and software registers were not prepared

(c) Public Enterprises Circular No.PED/12
dated 02 June 2003

(i) Section 2.2.4(e)

Although both physical and financial performance of the year should be reviewed with the corporate plan by the chief Accounting officer, actions had not been taken accordantly.

(ii) Section 4.2.6

Although, the quarterly performance reports should be forwarded to be line Ministry before 30 days after the end of the quarter, such reports had not been submitted by the company.

3. Financial Review

3.1 Financial Results

According to the financial statements presented the operations of the company for the year under review had resulted in a loss of Rs.13,256,699 as against the profit of Rs.15,264,327 for the preceding year, thus indicating a deterioration of Rs.28,521,026 in the financial results. Decrease of sales income by Rs.9,556,014 and increase of cost of sales by Rs.16,933,559 compared with the preceding had mainly affected to this deterioration in the financial results.

4. Operational Review

4.1 Performance

4.1.1 Planning

According to the Public Finance Circular No 01/2014 dated 17 February 2014, an action plan had not been prepared by the company for the year under review. Further, Performance Reports as well had not been prepared for the year under review.

4.2 Management Activities

The total balance of loans amounting to Rs.7,680,000 had been written off during the year under review without obtaining an approval.

4.3 Staff Administration

In terms of section 9.3.1 of the Public Enterprises circular No PED/12 dated 02 June 2003, a scheme of recruitments and promotion had not been prepared by the company.

5. Accountability and Good Governance

5.1 presentation of financial statements

Even though the financial statements should be presented to the Auditor General within 60 days after the close of the financial year in terms of section 6.5.1 of the Public Enterprises circular No PED/12 dated 02 June 2003, the financial statements of the company for the year under review had been presented to the Auditor General on 18 July 2018 after a delay of 25 months.

5.2 Procurement

According to the Guideline 4.2.1 of the Government procurement Guidelines 2006, a procurement plan had not been prepared by the company for the year under review.

6. Systems and Control

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

Area of Control -----	Weakness observed -----
(a) Procurements	Goods and services being Purchased contrary to the procurement Guidelines.
(b)Accounting	Failure to keep backup and maintained password. Failure to prepare journal vouchers.