National Livestock Development Board – 2015

The audit of financial statements of the National Livestock Development Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the comprehensive income statement, statement of changes in equity and cash flow statement 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 read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 23 of the State Agricultural Corporations Act, No. 11 of 1972. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for Financial Statements

The management 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 management 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 on audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might had been found necessary in respect of recorded or unrecorded item, and the elements making up the statement of financial position, statement of comprehensive income, the statement of changes in equity and cash flow statement.

2. Financial statements

2.1 Disclaimer Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I had 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 Comments on Financial Statements

2.2.1 Consolidated Financial Statements

In the presentation of the financial statements of the Board, the consolidated financial statements prepared by consolidating the financial statements of the subsidiary of which the total equity is owned by the Board should be presented to audit. Nevertheless, the financial statements prepared only for the Board had been presented to audit.

2.2.2 Sri Lanka Accounting Standards

The instances of non-compliances with following Sri Lanka Accounting Standards were observed in audit.

(a) Sri Lanka Accounting Standard 01

(i) According to Paragraph 79 (b), the reasons for the maintenance of capital reserves amounting to Rs.130,696,928 and revenue reserves amounting to Rs.44,529,422 and balance of revolving funds amounting to Rs.37,500,000 included in the financial statements of the Board and their nature had not been disclosed.

(ii) Although the financial statements had been prepared by consolidating financial statements of 31 farms with the financial statements of the Board, those farms accounts had not been prepared in accordance with the Sri Lanka Accounting Standards and those had not been presented with consistency in a manner able to compare with the previous years values.

(b) Sri Lanka Accounting Standard 08

According to Paragraph 42, in restating comparative amounts presented for the period in which the error occurred in the present set of the financial statements for the material prior period errors, the amount of the correction to be carried out for the line items of the financial statements, to the extent practicable, the amount of the correction at the begging of the period had not been disclosed. Further, according to Paragraph No.40 (b) of the Standard 1, three columns as the current, earliest and immediate comparative period had not been stated in the statement of financial position.

(c) Sri Lanka Accounting Standard 10

The required disclosures on the land with an extent of 35 acres released to the Milcho Institution out of the Siringapatha Farm land of the Board in terms of the Cabinet Decision dated 16 June 2015 and the Board of Directors Decision dated 10 February 2016 had not been made by the financial statements according to Paragraph 22 of the Standard.

(d) Sri Lanka Accounting Standard 12

Action had not been taken by the Board to identify whether deferred income tax assets or liabilities exist and to adjust them in terms of Paragraphs 15 and 24. For example, there were buildings of Rs.278,745 and machinery and equipment Rs.141 million under the differed tax liability.

(e) Sri Lanka Accounting Standard 16

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(i) As the useful life of the non-current assets had not been reviewed annually, 11,502 items of fixed assets costing Rs.163.5 million had remained in further using despite being fully depreciated. Accordingly, action had not been taken to revise the estimated error in accordance with Sri Lanka Accounting Standard 08. Further, the inactive and disused assets had not been disclosed by the financial statements as required by Paragraph 79 of the Standard.

(ii) The assets, of which the assessed value amounting to Rs.2,228,050 decided to be sold or disposed of by the end of the year under review in terms of Paragraph 73 (e) (ii) had not been disclosed by the financial statements.

(iii) In the revaluation of a certain group of assets in terms of Paragraph 36, all assets of that group should be revalued. Nevertheless, in the revaluation of motor vehicles by the Board in the year 2014, 226 vehicles costing Rs. 60,960,579 had been left out and as such, the effects to the financial statements resulting from that, could not be revealed in audit.

(f) Sri Lanka Accounting Standard 24

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(i) It had been decided to vest all the resources, assets, equity and the management of the Mahaweli Livestock Development Company with the Board in terms of a Cabinet decision. Nevertheless, no disclosure had been made thereon according to the Paragraphs 19 of the Standard 24 although the Chairman of that company was the Chairman of the Board.

(ii) Details on the contribution to the allowances of the Chairman and the Board of Directors and the defined contribution plans amounting to Rs.1,141,876 paid to the main Board of Management of the Board during the year under review had not been separately disclosed as required by Paragraph 17 of the Standard.

(g) Sri Lanka Accounting Standard 37

The contingent liabilities existed on eight court cases instituted against the Board had not been disclosed by the financial statements in accordance with Paragraph 86 of the Standard.

(h) Sri Lanka Accounting Standard 40

Although an income of Rs.1,312,121 had been earned by leasing out the lands and buildings of the Board to the external institutions on long term basis during the year under review, those investment properties had not been correctly valued according to the Paragraph 16 of the Standard and shown as a separate investment asset in the financial statements.

(i) Sri Lanka Accounting Standard 41

Action had not been taken to revalue the animals imported at a cost of Rs.1,079,162,786 under the stage II of the Wellard Project under the biological assets and adjust at the fair value in the accounts at the end of the year under review.

(j) Sri Lanka Financial Recording Standard (SLFRS) 13

The basis of the valuation of rubber plantation valued at Rs.18,125,757, cashew plantation valued at Rs.1,344,057 and other plantations valued at Rs.1,099,325, which were the commercial plantations existed under the biological assets of the Board in terms of the financial statements had not been disclosed in the financial statements of the Board in accordance with the Paragraphs 91 of the Sri Lanka Financial Recording Standard (SLFRS) 13.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) The capital grants amounting to Rs.142,650,321 provided by the General Treasury for the Board in respect of purchasing capital assets for the year under review and 4 preceding years had been brought to account as the revenue grants.

(b) Depreciations and the provisions for depreciations for the year under review had been understated by. Rs.2,882,830 due to erroneous computation.

(c) As action had not been taken in terms of Financial Regulation 760 on the shortage of the closing stock amounting to Rs.10,239,289 of the Milk Project continued to exist from the year 2012 and make necessary adjustments in the financial statements, the profit had been overstated by that amount even in the year under review. The Chairman had stated as the reply that the defect of the accounting system had resulted in the said stock shortage.

(d) Instead of writing off the cost of Rs.18,661,613 relating to 43 cows died during the year under review out of the imported cows against the profit of the year, only a sum of Rs.1,891,167 had been written off and as such, the profit of the year under review had been overstated by Rs.16,770,446.

(e) The stock value relating to 06 animal categories of 07 farms included in the livestock stock balance had been overstated by Rs.30,902,013 than the value assessed according to the relevant board of survey reports and as such, the net profit had been overstated by that amount.

(f) As the stock shortage of 663 items of goods valued at Rs.766,879 of the stall of the Head Office existed by the end of the year under review had been shown under the trade and other stocks without making required adjustments, the profit of the year under review had been overstated by that amount.

(g) A motor vehicle, the book value of which was Rs.148,172 had been sold at Rs.378,000 during the year under review and as the cost thereof had been transferred to the Disposal Account by understating Rs.214,190, assets and the profit of the disposal had been overstated by that amount.

(h) The closing stocks included in the financial statements had been understated by Rs.1,711,840 than the balance of the relevant board of survey and the value of the pigs amounting to Rs. 1,406,500 which should be stated under the biological assets had been stated under the trade and other stocks.

(i) Instead of accounting expenditure of the farms totalling Rs.533,251 under the expenditure of the statement of comprehensive income, it had been stated under the trade and other receivable debtors balance.

(j) Total income of Rs.8,105,520 earned from the sale of Teak trees stood on 04 farms not recognized as the trade stocks by properly valuing the agricultural cultivations from the preceding years up to the year under review had been accounted under the income of the statement of comprehensive income of the year under review.

(k) Instead of carrying out transactions among the inter-projects by the control accounts, those had been carried out through the debtors accounts and as such the debtors value had been overstated by Rs.942,862.

(l) The stall rent income amounting to Rs.44,862 receivable for the year under review had been omitted from the accounts.

(m) Although the electric fence valued at Rs.3,517,579 of the Maize Project had been put up at the Menicpalama Farm in the year 2011, it had not been included in the accounts of the Farm and that value had been further accounted under the Maize Project without being depreciated.

(n) Insurance claims amounting to Rs.187,484 received by the Head Office before 6 months in respect of employees and the vehicles of the farms had been shown as the cash in transits in the final account.

(o) A consolidated trial balance had not been prepared for the Head Office, 31 Farms and 4 Projects.

(p) Instead of stating the expenditure of Rs.280,000 relating to the construction of pig pen of the Mahaberiyathenna Farm Account as the fixed assets, it had been stated under the current assets.

(q) The value of closing stock of copra amounting to Rs.444,654 obtained for the Andigama Farm from its brethren Farm had been debited to the Accrued Expenditure Account instead of posting in the Stock Account.

(r) As the biological assets in the final accounts of the Rosita Farm had not been correctly classified as trade and non-current stocks and the unrealized profit had not been correctly computed, the non-current stock had been overstated by Rs.66,641 and the unrealized profit had been understated by that amount in the financial statements of the Board.

2.2.4 Unreconciled Control Accounts

The following observations are made.

(a) Current Accounts

Even though the net value of the inter-current accounts existed in the books of the Head Office in respect of each farm and the net value of the inter-current accounts existed in the books of the farms should be zero, a net debit balance totalling Rs.157,950,654 had been shown in the inter-current accounts of the Head Office while a net credit balance totalling Rs.157,349,362 had been shown in the inter-current accounts of the farms. As necessary adjustments had not been made to make it zero after examining those balances, there was an unreconciled balance of Rs.601,292.

(b) **Money Exchange Accounts**

It was further established by following observations that the Money Exchange Accounts maintained between the Head Office and each project had not been reconciled and made the necessary adjustments.

(i) There were debit balances of Rs.1,621,530 and Rs.1,352,800 respectively in the Money Exchange Accounts with the Delite Projects and Milk Project in the Franchise Project Ledger by the end of the year under review and correspondingly, there was a zero value in the Money Exchange Accounts of the ledgers of those projects.

(ii) In the books of the Head Office, there was an unreconciled balance of Rs.29,285,411 comprising credit balances totalling Rs.38,311,318 of 04 projects and debit balance of Rs.20,614,967 in the Money Exchange Accounts relevant thereto.

(c) **Control Account**

In the examination of Control Accounts maintained on the non-cash transactions between the Head Office and each project, a debit balance of Rs.42,220,302 in 05 Control Accounts, a credit balance of Rs.24,429,596 in 05 Control Accounts, debit balances totalling Rs.11,775,341 in 02 Project Control Accounts and credit balances totalling Rs.14,749,542 in 05 Control Accounts could be observed. Nevertheless, necessary adjustments had not been made by reconciling those accounts.

(d) Cash Deposit Account and Cash Remittance Accounts

There was a difference of credit balance amounting to Rs. 440,184 between the credit balance totalling Rs.29,788,851 relating to 31 Cash Deposit Accounts and the debit balance totalling Rs.29,348,667 relating to 34 Cash Remittance Account maintained by the Head Office in respect of the farms and it had been shown as the cash in transits in the financial statements by the end of the year under review. The following observations are made in this connection.

(i) In granting money for the farms by the Head Office, the cash deposit accounts of the books of the Head Office should be zero by the end of the year and if there is cash in transits , there may be a debit balance in that account. Nevertheless, a credit balance of Rs.32,592,349 comprising the debit balances totalling Rs.13,988,777 relating to 13 cash deposit accounts and credit balances totalling Rs.46,581,126 relating to 19 accounts had been shown in the financial statements.

(ii) In remitting money to the Head Office by the farms, if there is no cash in transits by the end of the year, the Net Cash Remittance Account should be zero. Nevertheless, a credit balance of Rs.25,707,721 comprising a credit balance totalling Rs.10,380,523 in 12 cash remittance accounts maintained in the name of farms in the books of the Head Office and a debit balance totalling Rs.36,088,244 in 19 accounts had been shown in the financial statements. But, there was a zero balance in the books of the farms.

(iii) As a credit balance of Rs.2,799,599 which should be posted in the farms remittance accounts of the Head Office had been credited to a general account named Other Remittance, it had been stated under the cash in transits without being reconciled.

2.2.5 Unexplained Differences

The following observations are made.

(a) According to the land schedule and the register of fixed assets furnished to audit, an unexplained difference of lands, 125.32 hectares in extent was observed.

(b) In terms of the financial statements, although the lorry running income relating to 08 farms stated under the schedule presented for the other income balance was Rs.5,334,336, according to the financial statements presented for each farm, that income was Rs.7,819,417.

(c) Although the payable balance of the Valued Added Tax Control Ledger Account of the Head Office furnished to audit was Rs.5,364,163, that balance was Rs.6,111,549 according to the schedule of the Valued Added Tax presented, thus observing a difference of Rs. 747,386.

2.2.6 Lack of Evidence for Audit

The evidence indicated against the following items of accounts was not made available to audit and as such, they could not be satisfactorily vouched or accepted in audit

	Item of Account	Value Rs.	Evidence not made available
(a)	Lands- 10,241.84 hectares	225,189,438	Deeds of Lease in support of the ownership
(b)	Biological Assets- Cultivations		
	(i) Coconut under /new cultivation	541,550,090	Schedules in respect of each farm for the total balance
	(ii) Cashew Cultivation	1,335,382	
	(iii) Rubber Cultivation	14,396,652	
(c)	Non-current assets- additions of the year		
	(i) Buildings	1,483,072	Files relating to ensure that the procurement process had been followed and the evidence relating to the verification of expenditure.
	(ii) Machinery and Equipment	2,462,967	
	(iii) Estate Equipment	559,149	
	(iv) Office Equipment	1,659,310	
	(v) Furniture and fittings	378,742	
	(vi) Structures	8,622,341	
	(vii) Vehicles	1,686,900	
(d)	Work–in-progress	12,005,290	
(e)	Debtors		
	(i) Mahaweli Livestock Development Company	4,981,912	Written evidence to confirm the receivables and confirmation of balances.
	(ii) Line Ministry	10,439,949	
	(iii) Balance receivable from the Bank of Ceylon Kanthale Branch existing from the year 2009	2,092,150	
	(iv) Balance receivable from the representatives of the Milk Project	1,141,642	Detailed schedules and confirmation of balances.
	(v) Balance receivables under the Farm Shop (Old)	2,770,757	
	(vi) Trade and Other Debtors		
	Eight Farms	4,608,399	
	Two Projects	132,445	
(f)	Debtors balance of the coconut brokers	18,708,299	Confirmation of balances.
(g)	Down payments paid to the Land Reforms Commission in the year 2007	366,017	Evidence to confirm that the relevant lands were acquired.
(h)	Insurance claim received by the Board.	2,803,498	Detailed Schedules.

		868,000,129	

(i) An inventory had not been maintained on the assets relating to the Milk Project in terms of Financial Regulation 750 and as a result of not updating the register of fixed assets, no information whatsoever could be found for the confirmation of physical existence of the fixed assets existed in 109 stalls closed down.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The trade and other creditors balance of Rs.312,348,946 existed as at 31 December of the year under review under the Head Office, 31 farms and 2 projects had included the creditors amounting to Rs.139,737,712 older than one year and out of that, a sum of Rs.117,995,249 represented the creditors older than 5 years. It had been 45 per cent of the total creditors.

(b) The trade and other debtors balance of Rs.182,645,183 existed as at 31 December of the year under review under the Head Office, 31 farms and 5 projects had included the debtors balance of Rs.91,993,920 older than one year and out of that, a sum of Rs.29,028,265 represented the debtors older than 5 years. It had been 16 per cent of the total debtors.

(c) Even though the loan balance due from the Mahaweli Livestock Development Company by the end of the year under review had been stated as Rs.8,489,772, the relevant company had establish that loan balance due as Rs.1,720,418.

(d) Without receiving any service or supply and even without entering into a relevant agreement a sum of Rs.2,957,521 had been given as a loan to the Plantation Homes Trust Fund , which is not a Government institution, on 02 November 2011 by stating that the approval of the Secretary to the Ministry was obtained and without being recovered that amount even up to 24 January 2017, it had been stated under the trade and other debtors in the financial statements of the year under review.

(e) Although the Value Added Tax of Rs.8,208,076 and Rs.8,918,808 respectively payable and receivable as at the end of the year under review had been included in the accounts of the Head Office and the farms, action had not been taken either to settle or recover them.

(f) Action had not been taken to settle the loan amounting to Rs.102,662,750 obtained by the Board from the Farmers’ Trust Fund in the year 2003 over a period of 11 years and as such, the total amount payable together with the total interest of Rs.87,757,178 by the end of the year under review was Rs.190,419,928.

(g) Loan balances of Rs.26,746,567 older than 12 years and the loan balances of Rs.279,450 older than 5 years payable to a private company in respect of supplying animal foods had not been settled up to the end of the year under review.

(h) The Board had not taken action to settle the commission of Rs.386,101 older than one year payable to the managers relating to 9 farms and salaries amounting to Rs.247,304 older than 2 years relating to 17 farms included in the staff creditors balance.

(i) The insurance claim of Rs.19.253,926 remained receivable from 13 May 2014 relating to 69 imported and deceased milk cows included in the trade and other debtors had not been recovered even up to 07 November 2016.

2.4 Transactions not Supported by an Adequate Authority

A loan balance of Rs.900,451 receivable to the Dayagama Farm from the Milk Project since a period over 2 years and a sum of Rs.1,030,080 due for the sale of milk to the Cargill's Institute in the year 2015 had been written off from the Milk Income Account of the year contrary to the Finance Ministry Circular No.PFD/RED/2015/08 General (1) dated 09 October 2015.

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

Instances of non-compliances with the following laws, rules, regulations and management decisions were observed.

	Reference to Laws, Rules and Regulations	Non-compliance
(a)	Section (a) of the Public Finance Circular No.03/2015 dated 14 July 2015.	(i) Contrary to the Circular, petty cash imprest had been granted as Rs.100,000 exceeding the limit of Rs.25,000 during the year under review. (ii) Although the sub-imprest should be settled within 10 days from the completion of the relevant purpose in terms of the circular, action had not been taken according to the circular relating to the imprest totalled Rs.797,901 in 40 instances.
(b)	Paragraph 4.2.6 of the Public Enterprises Circular on the Good Governance No. PED/12 dated 02 June 2003.	Quarterly Performance Reports had not been furnished to the Line Ministry and the Public Enterprises Department before the lapse of 30 days from the close of each quarter.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial results of the Board for the year under review had been a surplus of Rs.37,736,808 as compared with the surplus of Rs.60,257,972 for the preceding year thus indicating a deterioration of Rs.22,521,164 in the financial result as compared with the preceding year. Even though the gross profit had increased by Rs.38,451,365, increase in the administrative expenditure and financial expenditure by Rs. 12,631,008 and Rs.32,982,824 respectively and decrease in the other income by Rs.10,750,334 had mainly attributed to the above deterioration of the financial result.

Analysis of the financial results of the year under review and 04 preceding years revealed that a profit had been continuously received from the year 2011 to the year 2015. Nevertheless, in readjusting the employees remuneration , depreciation for the non-current assets and income taxes to the financial result, the contribution of the Board amounting to Rs.307,380,090 in the year 2011 had decreased up to Rs.229,911,575 by the end of the year under review.

3.2 Legal Action instituted against or by the Board

The following observations are made.

(a) The Board had filed two cases in Courts against 2 external parties claiming compensation amounting to Rs.2,093,175 for defaulting payments in terms of sales agreements and obtaining the ownership of a land situated at Maradavila. Further, 4 cases filed in respect of reacquiring the lands unauthorisingly cultivated by external parties and two quarries and 04 cases filed against the Board by 05 employees against the suspension of service were being tried by the end of the year under review.

(b) Even though the Attorney General’s Department had decided to take fiscal action to recover a sum of Rs.11,947,220 recoverable due to failure in paying money for maize provided to a private firm for sale, that amount could not be recovered even by 30 June 2016.

4. Operating Review

4.1 Performance

The functions required to be performed by the Board according to Section 2 of the State Agricultural Corporations Act, No. 11 of 1972 and the Gazette No.151 dated 14 February 1975 are as follows.

- Establishment of the centres for the purchase of animals for meat at reasonable price.

- Establishment of regional slaughterhouses for the supply of carcasses of animals, transportation up to those places and the transport of carcasses sealed for the identification to the licensed traders from the slaughterhouses.

- Process and sale of meat and meat products, issue of sales licences and regularizing those process and ensuring the maximum benefit from the byproducts.

- Preparation of high quality meat cut in to pieces by storing in packets and marking prices for the distribution to the licensed traders for sale.

- Import and supply of breeding animals, medicines, machinery and equipment required for rearing animals.

- Commencement and maintenance of animal farms and other business enterprises which are considered as capable of maintaining effectively in addition to the ordinary businesses of the Board.

The following matters were observed on the progress of performing of objected functions of the Board in terms of the Action Plan and the Performance Report of the Board relating to the year under review.

(a) Thirty four activities relating to 17 farms and 05 projects included in the Action Plan had not been totally implemented during the year under review and the progress of 52 activities relating to 21 farms and 07 projects had been at lower level from 2 per cent to 49 per cent.

(b) No information whatsoever had been included in the Annual Performance Report on 195 activities relating to 30 farms and 10 projects incorporate in the Action Plan.

4.2 Operating Activities

The following observations are made on the Wellard Project implemented by the Board.

(a) The Board had obtained loans totalling Rs.4,309,906,474 comprising Rs. 1,655,141,576 obtained in the year 2011 under the stage 1 according to the agreement dated 19 August 2010 entered to the with the Wellard Rural Exported Pvt. Company and Rs.2,654,764,898 obtained in the year 2015 under the II stage according to the agreement dated 24 July 2014. Although it had been stated in the financial statements that the interest totalling Rs.52,956,140 up to the year 2015 should be paid to the General Treasury in the settlement of loan, only a sum of Rs.12,000,000 in the year 2014 and Rs.9,000,000 in the year under review had been settled.

(b) Without conducting a feasibility study, a sum of Rs.2,654,764,898 had been spent for the import of milch cows under the second stage of the Wellard Project during the year under review and guarantee certificates and the quality assurance for the relevant supplies and the services could not be observed in audit.

(c) As 2,495 cows imported under the above project at a cost of Rs.1,082,807,545 on 13 July and 12 October of the year under review had not been insured, the death of 133 cows with the imported value of Rs.57,720,803 by 30 May 2016 had resulted in a loss to the Government by that amount .

(d) According to the minutes of the inaugural meeting of the Wellard Project dated 20 June 2013, the Civil Engineer had stated that the prices of the constructions carried out in Sri Lanka were high as compared with the standard rates of Sri Lanka, whereas the Board had not paid an adequate attention in that respect. It was further observed by the matters such as incompletion of the specifications prepared relating to the constructions and the purchases and the substandard level of the quality of those activities. Further, any details and documents had not been furnished to audit for the establishment of payments of Rs.552,833,123 made for the constructions and supplies and the following observations are further made in this connection

(i) According to the project estimate, a sum of Rs.12,251,651 equivalent to USD 90,125.43 had been allocated for the construction of a gravel road of 5 kilometers in length of which the width had not been indicated. The width and the length of the road constructed according to the standard rates had been 3 meters and 4.9 kilometers respectively and the cost for 4410 cubic meters was Rs.1,450,228. Nevertheless, a sum of Rs.12,037,342 had been paid therefor and as such, a sum of Rs.10,587,114 had been overpaid.

(ii) Any information on the repairs of buildings/huts had not been stated in the specification and USD. 1,114,888.89 had been allocated therefor. Fabrication of 600 cattle pens with the use of 1’’x 2’’ timber (indurable), replacement of new sheets for the damaged asbestos sheets, installation of several electric fans and construction of a concrete bunker only had been done and a sum of Rs.146,161,872 had been paid to that company for that purpose.

(iii) According to the rates charged for the motor vehicles owned by the Board, although the average cost required for the transport of 2500 dairy cattle for a distance of 38 kilometers from the Hambantota Port to Ridiyagama Farm was Rs.570,000, a sum of Rs.35,419,847 equivalent to USD. 260,555 had been estimated therefor. Although the amount required to be spent for the transport of 2495 dairy cattle using the motor vehicles of the Board was Rs.568,860, an overpayment had been made thereon as Rs.33,417,187.

(iv) Under this project, USD.100,000 had been allocated for the human resources development and the Board had reimbursed a sum of Rs.13,193,449 equivalent to USD.95,000 to the Wellard Rural Exported (Pvt.) Company as at 31 December 2015.It was observed in audit that the above money had been reimbursed without establishing that expenditure incurred on the trainings and foreign tours given in relation to the said expenditure had been actually borne.

(v) Although USD.31267 had been allocated for 6 agrarian wells according to the specification of the project, only one agrarian well and 2 tube wells had been constructed. Accordingly, the amount payable was USD. 15,633, whereas Rs.4,110,523 equivalent to USD 29,703 had been reimbursed. As such, Rs.1,947,147 equivalent to USD.14,070 had been overpaid.

(e) According to the agreement entered into between the National Livestock Development Board and the Wellard Rural Exported (Pvt.) Company, the imported dairy cows should be the animals with 2 to 6 months pregnancy. Nevertheless, it had been stated that 142 animals out of 2500 imported animals had not been pregnant and out of that 79 animals had not become pregnant up to the date of audit on 30 May 2016, even after a lapse of 06 moths from the date of purchase. Accordingly, it was observed that the expenditure of Rs.34,285,289 incurred on that animal had been a fruitless expenditure.

(f) In the process of impregnation of the dairy cows for the second time that had stopped producing milk from 25 days to 190 days after its first pregnancy (The average milking period is 300 days), the number of periods that the normal artificial insemination process should be successful is 1 to 2. Nevertheless, the number of imported cows that had not become pregnant despite being artificially inseminated for 4 to 8 times exceeding the above limit by 03 July 2016 was observed to be 260 cows. This had exceeded 10 per cent of the imported cows. Accordingly, it was observed that a benefit had not received in commensurate with the money spent on those animals.

(g) By stating that the 2000 dairy cattle imported in the year 2012 with the objective of increasing per capita milk consumption under the first stage had successfully adapted to the local environment, 2500 dairy cattle had been imported under the second stage during the year under review. According to the report of feasibility study conducted relating to the import of dairy cattle, the average volume of milk anticipated from one imported dairy cow had been estimated as 20 liters per day. Nevertheless, the average volume of milk yielded from the cows imported under the first stage in the year 2012 had been 11 liters per day while it was12 liters per day from the cows imported under the second stage in the year 2015 by December 2016. Accordingly, it was observed that the expected milk production was not taking place from this project.

4.3 Management Activities

The following observations are made.

(a) The following observations are made on the failure in recovering loan balance of Rs.19,382,257 due from the brokers of the coconut sales as a result of not taking action in terms of the rules issued by the Coconut Development Board in the coconut auctions conducted by the Authority.

(i) Debtors balance of Rs.19,382,256 receivable for the sale coconut as at 31 December of the year under review had included unidentified balances of Rs.2,690,396 older than 3 years and less than 5 years and legal action had been instituted only for the recovery of Rs.5,821,542. Action had not been taken adequately for the recovery of the balance of Rs.4,719,346 older than 05 years.

(iii) Legal action had not been taken for the recovery of fine amounting to Rs.4,524,254 computed and accounted according to the Section 24 of the rules referred to above since a period from 04 years to 10 years and the Board had continuously provided coconuts for those brokers.

(b) As feasibility study had not been conducted before the opening of trade stalls relating to the Milk Project, out of 115 trade stalls commenced in the year 2002, the number of trade stalls remained in operation by the end of the year under review was 43. Losses amounting to Rs.2,832,709 had been sustained from 21 trade stalls.

(c) The management had not taken action to vest in the Board the ownership of the land on which the Ridiyagama Farm was maintained from the year 1992.

(d) The interest free loan amounting to Rs.50,000,000 obtained from the General Treasury in the year 1992 for the Ambewela Farm had not been settled at the time of privatization of the Farm on 03 October 2001 and no future arrangements had been made for the settlement of the loan even up to 31 August 2016.

4.4 Transactions of Contentious Nature

A sum of Rs.37.55 million had been granted to the Board on 28 June 2007 under the re-awakening of the East programme to create a Revolving Fund for a Maize Project, on a land in Kanthale with an extent of 1,000 acres where sugarcane was cultivated. Due to the failure of the Project, the balance of Rs.17,549,342 remained in the Revolving Fund on 11 September 2011 should be refunded to the General Treasury in terms Cabinet Decision dated 20 June 2007. Without doing so, only a sum of Rs. 13,295,637 of that had been deposited in fixed deposits.

4.5 Idle and Underutilized Assets

It was observed at the end of the year that 45 houses of the Board situated in farms and pointed out by audit from the year 2012 had remained idle without being utilized.

4.6 Commencement of Projects on the lands/properties not properly vested

Without being properly vested the ownership of the lands belonging to 24 farms maintained since years 1974 and 1992, the Board had constructed buildings valued at Rs.174,695,645 and structures valued at Rs.667,853,151.

4.7 Staff Administration

Without obtaining the approval of the Cabinet of Ministers in terms of Paragraph (i) and (iv) of the Public Administration Circular No.9/2007 (1) D dated 24 August 2007 and without following the provisions of the Consultancy Services Procurement Guidelines issued on November 2007, 5 persons including 4 persons older than 60 years of age had been recruited as Consultants on contract basis during the year under review. The Terms of Reference had not been given to the other Consultants except for the Veterinary Consultant from among the

Consultants thus recruited. Further, without establishing the performance reports and the attendance registers of the Consultants, a sum of Rs.1,305,665 had been paid as allowances during the year under review.

4.8 Market Contribution

According to the information of the Department of Census and Statistics, the total milk production of the country amounted to 374,443,200 liters during the year under review and out of that the milk production of the National Livestock Development Board was 11,040,015 liters. Accordingly, the contribution of the Board for the milk production was only 3 per cent.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements should have been presented to the Auditor General within 60 days from the close of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements for the year under review had been presented to the Auditor General on 06 September 2016.

5.2 Corporate Plan

A Corporate Plan had not been prepared for the year under review in terms of Section 5.1 of the Public Enterprises Circular No. PED 12 of 02 June 2003 and Paragraph 5 of the Public Finance Circular No.01/2014 of 17 February 2014.

5.3 Action Plan

Even though an Action Plan should have been prepared for the entire institution including the commercial activities expected to be performed in the ensuing financial year based on the Corporate Plan in terms of paragraph 5(2) of the Public Finance Circular No.01/2014 of 17 February 2014, the Action Plan for the year under review had been prepared without including the activities of the Head Office of the Board and other 4 projects.

5.4 Procurement and Contract Process

Proper approval had not been obtained by preparing estimates relating to the clearance of jungles and without calling for quotations for the clearance of a land with an extent of 460 acres, the contracts had been awarded at the rates of Rs.2,000 to Rs.16,750 per acre devoid of transparency in 3 instances.

5.5 Unresolved Audit Paragraphs

The following observations are made.

(a) A sum of Rs.80,604,253 spent in the year 2013 by the Wellard Milk Cow Project operated on foreign bank loans and accounted as capital expenditure under the Menik Palama Farm had been written off against the accumulated income as a revenue expenditure in the year 2014. The reasons for writing off this expenditure as a revenue expenditure and any evidence for the establishment of that expenditure had not been made available to audit even up to 20 December 2016.

(b) The Board had not taken action to evacuate the unauthorized occupants resided in 70 houses of the farms belonging to the Board.

6. Systems and Controls

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

Area of Systems and Control	Observations
(a) Farms Sales Control	(i) In issuing milk of the Ridiyagama Farm by bowsers a copy of the issuing order had not been given to the Security Guard in a manner enable to check the same and confirmation had not been made that the copies given to him had been checked.
	(ii) Issuing orders had been issued without following the Serial No. order and without proper authority.
	(iii) The number of the seal used in the bowsers had not been indicated in the issuing order.
	(iv) Money had been obtained by stating the sales of the farm according to the bill prepared by the institution that purchased milk as per the volume of milk received, instead of issuing bills for the sale of milk.
(c) Farms Stock Control	Stocks of drugs had been issued without proper written approval.

(d)	Farms Accounts Control	(i)	Journal vouchers had not been submitted together with the accounts of the farms.
		(ii)	An identical accounting policy had not been followed for accounting transactions of the farms and preparing financial statements.
		(iii)	Bank reconciliations had not been prepared correctly.
		(iv)	The items of the financial statements of the farms had not been tallied with the balances of the relevant trial balance. (Existence of differences)
(e)	Projects Sales Control		All the activities such as making orders relating to the milk due to be sold under the Milk Project, preparation of issuing orders, receiving of goods, preparation of bills for delivering out had been carried out by a single officer.