

Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. - 2016

The audit of financial statements of the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. My observations on the performance of the Company for the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium - sized Entities 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 my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Establishment of the Company

The Livestock Development Division of the Mahaweli Authority of Sri Lanka which existed up to the year 1999, has been incorporated as a State Company by the name "Mahaweli Livestock and Agro Enterprises (Pvt) Ltd." on 10 June 1999. Even though the Board of Directors of the Mahaweli Authority had decided to liquidate this Company on 12 September

2012, subsequently, it had been re-registered as a Company under No.PV 22402 on 20 November 2013 under the Company Act, No. 07 of 2007.

1.5 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards for Small and Medium-sized Entities

The following non-compliances were observed.

- (a) Disclosures had not been made in the financial statements on the going concern of the Company in terms of paragraph 8 of Chapter 3.
- (b) Disclosures had not been made in the financial statements on the parties connected to the Company in terms of paragraph 9 of Chapter 33.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Salaries amounting to Rs.1,242,000 paid from the year 2010 up to the end of the year under review from the Company Fund to a Management Assistant released to the Mahaweli Authority of Sri Lanka, had not been shown in the financial statements as receivable from the Authority.
- (b) The financial statements of the year under review had been balanced by entering the value of the balances of unidentified inter farm debtors amounting to Rs.35,682,485 in a suspense account.

2.2.3 Unexplained Differences

According to the financial statements, the value of fixed assets amounted to Rs.88,183,837. However, according to ledger accounts, that value amounted to Rs.88,094,019, thus indicating a difference of Rs.89,818.

2.2.4 Lack of Evidence for Audit

The evidence indicated against the following items was not made available to Audit.

Item	Value	Evidence not made available
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	Rs.	
Mahaweli Economic Agency	405,218,731	Documents relating to confirming and accounting these values brought to account as capital grants.
Kothmale Dairy Development Fund	2,900,000	
Capital Grants of the European Economic Commission	3,583,706	
Foreign Aid	5,729,782	
Write off of Fixed Assets	859,256	The way in which the value was prepared and the relevant approval.
Accounts Receivable – Mahaweli Livestock and Agro Enterprises (pvt) Ltd.	1,382,468	Documents relating to confirming the value.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The sum of Rs.5,820,430 receivable for the livestock of the Nirawiya Farm transferred to the Ministry of Irrigation and Water Resources Management in the year 2010 had been shown in the financial statements as accounts receivable.
- (b) Creditors balances amounting to Rs.690,784 lapsed for over a period of 05 years as at the end of the year under review had not been settled and evidence relating to confirmation of those balances were not available with the Company.

2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Mahaweli Authority of Sri Lanka Act, No.23 of 1979	
(i) Section 39 (1)	Even though the Board of Directors of the Company should consist of 07 persons including certain Government Directors and Shareholder Directors as determined by the Minister, the Board of Directors of the Company consisted of only three persons.
(ii) Section 45 (1)	The Board of Directors may elect any one of the Directors to be the Chairman of the Company. Nevertheless, no Chairman had been appointed to the Company since September 2015.
(b) Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003	A Draft Annual Report had not been presented along with the financial statements of the year 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a deficit of Rs.4,025,739 as against the surplus of Rs.1,043,943 for the preceding year, thus indicating a deterioration in the financial result by Rs.5,069,682 in the year under review as compared with the preceding year. The financial result had deteriorated due to decrease in the profit earned from key activities by Rs.3,662,109 and the increase in expenditure by Rs.1,407,573 in the year under review as compared with the preceding year.

An analysis of the financial results of the year under review and 04 preceding years revealed that the net profit of the Company amounting to Rs.16,603,787 in the year 2012 had converted into a net loss of Rs.4,025,739 in the year 2016. However, after readjusting employees' remuneration, depreciation for non-current assets and income tax to the financial result, the contribution of the Company which was Rs.30,769,604 in the year 2012 had been continuously decreasing and it had been Rs.7,782,072 in the year under review.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Even though 12 main objectives had been indicated in the Memorandum of Association of the Company, the objectives of carrying on the business of farming of the Company, poultry farming for sale at wholesale and retail, manufacture of poultry feed and supply to farmers, breeding, selling, improving, preparing and exporting of animals such as cattle, pigs, poultry etc., carrying on business activities associated with fruits and cereals had not been achieved and only the buffaloes, milch cows, poultry, pigs and goat husbandry on a small scale and activities of dairy products were being functioned.
- (b) Chicken feed valued at Rs.8,407,159 and 19,000 chicks valued at Rs.2,278,000 had been purchased in the year under review deviating from the Procurement Process. As chicks were purchased from various institutions, price variations of a chick ranging from Rs.70 to Rs.155 were observed.

4.2 Management Activities

The following observations are made.

- (a) Sanitation problems had arisen due to carrying out production activities by machinery used from the inception, old condition of the factory buildings, weak condition of the roof and leakage of water into the factory, malfunction of the drainage system and weakness in the internal cleaning system of the Mini Dairy commenced in the year 1986, located at the Giradurukotte Farm. It was observed that legal issues could arise due to carrying out production activities on such unfavourable conditions and the Management had not taken necessary measures in that connection.
- (b) Sums of Rs.8,237,607 and Rs.334,846 were payable to the Employees' Provident Fund and Employees' Trust Fund respectively from the year 2014 up to the year 2016. As such, it was observed that the Company may have to pay a surcharge in future.
- (c) Action had not been taken to vest the legal ownership of lands valued at Rs.14,929,159 shown under non-current assets in the financial statements.
- (d) The capital of the Company should comprise ordinary shares of Rs.100 each in terms of Section 42(1) of the Mahaweli Authority of Sri Lanka Act, No.23 of 1979. However, according to the Memorandum of Association of the Company, the authorized capital comprised 5,000,000 shares of Rs.10. Only 03 shares had been issued to three Directors of another private company who were inaugural Directors at the inception of the Company. Other shares had not been issued even up to 31 December 2016 and no shares of the Company whatsoever had been issued for the ownership of Mahaweli Authority. As such, a questionable situation was observed on the ownership of the Authority relating to the Company.

- (e) According to the consolidated financial statements of the Mahaweli Authority of Sri Lanka for the year 2015, this Company had been indicated as a subsidiary of the Authority with full ownership while in the year 1999, a sum of Rs.418,871,277 had been invested in this Company. Nevertheless, no benefits whatsoever had been given thereon to the Mahaweli Authority of Sri Lanka even by the end of the year under review.
- (f) Collection and payment of Value Added Tax and Nation Building Tax from the year 1999 in which the Company was initiated up to the year 2013, had been made in the name of the Livestock Development Division of the Mahaweli Authority of Sri Lanka.

4.3 Operating Activities

Even though 07 farms had functioned under the Company since the year 1999, at present only the two farms located at Damminna and Giradurukotte are under the purview of the Company. Other farms had been vested in external parties and buildings and motor vehicles valued at Rs.16,806,745 and Rs.6,583,340 respectively and other assets belonging to those farms had been further shown in the financial statements of the Company as property, plant and equipment. Approvals obtained for vesting of farms to external parties had failed to be presented to Audit as well.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) Constructions including cattle sheds and goat sheds by spending a sum of Rs.12,501,900 in the years 2014/2015 and goods to the value of Rs.8,967,600 had been valued and vested with this Company on 08 February 2016 with a view to converting the Giradurukotte Farm belonging to the Company into an Animal Husbandry Training Centre by System "C" of the Mahaweli Authority. Even though these constructions which had been carried out for achieving an objective of another party, had been vested with the Company, a specific plan or methodology in making use of these constructions were not available with the Company. As such, that asset had remained idle, being subjected to decay since the date of vesting.
- (b) No crop whatsoever had been cultivated on the farm land of approximately 1,054 acres in extent at Giradurukotte and as animal husbandry had been carried out on a small scale, the land had remained underutilized. Moreover, the fixed assets valued at Rs.2,720,000 in the Mini Dairy had remained idle since the year 2013 and 06 decayed motor vehicles costing Rs.2,056,000 and a machine had remained idle in the office premises of the Giradurukotte Farm.

4.5 Staff Administration

The Niraviya Farm which belonged to the Company had been taken under the line Ministry and the salaries, contributions of Employees' Provident Fund and Employees' Trust Fund of 06 employees of the Company who were attached to that Farm had been paid by the Ministry and presently by the Mahaweli Authority. Nevertheless, the Company had not taken action to release these employees properly.

5. **Accountability and Good Governance**

5.1 **Corporate Plan**

In terms of Section 5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, a Corporate Plan including the future plans in achieving the objectives of establishing the Company, had not been prepared.

5.2 **Action Plan**

In terms of Public Finance Circular No. 01/2014 of 17 February 2014, the Annual Action Plan had not been prepared for the proper performance of functions in the year under review.

5.3 **Budgetary Control**

The approval of the Board of Directors had not been obtained for the budget prepared for the year under review and variances ranging from 14 per cent to 100 per cent were observed between the budgetary and actual data, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. **Systems and Controls**

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.

Areas of Systems and Controls	Observations
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(a) Accounting	Failure in preparing financial statements in terms of Accounting Standards.
(b) Control of Debtors and Creditors	Failure in taking action to settle balances remaining unsettled for a long period.
(c) Human Resources Management	Improper management in releasing of human resources belonging to the Company to external parties.
(d) Performance	Failure in taking action to implement all objectives mentioned in the Memorandum of Association.
(e) Assets Control	Failure in taking action to settle idle and underutilized assets and assets belonging to other parties.