National Livestock Development Board - 2016

The audit of financial statements of the National Livestock Development Board 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 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 of 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 Sri Lanka Accounting Standards

The following instances of non-compliance with Sri Lanka Accounting Standards were observed at audit.

(a) **Sri Lanka Accounting Standard 01**

(i) The financial position, financial performance, and cash flow statement of the entity should be fairly presented by the financial statements in terms of Paragraph 15 of the Standard. However, the necessary disclosures for the adjustment of Rs.87,826,716 and the provision for depreciation amounted to Rs.146,667 carried out in respect of property, plant and equipment shown under note 4 of the statement of financial position had not been carried out.

(ii) The corresponding values for preceding year in terms of Paragraph 38 of the Standard had not been presented in the financial statements prepared for property, plant and equipment ,biological assets and 32 farms.

(iii) In terms of Paragraph 79(b) of the standard, the objectives for the maintenance of capital reserves, revenue reserves and the balance of revolving fund amounting to Rs.130,696,928 Rs.44,529,422 and Rs.37,500,000 respectively relating to the Maize Project included in the statement of changes in equity and their amounting to nature had not been disclosed.

(iv) Revenue statement’s expenses had been presented according to the function and the expenses on 4 Projects and 32 farms included in that expense had been presented in the name of the Project instead of presented by the additional information notes of their nature in terms of Paragraph 104 of the standard.

(v) Accounting Policy relating to work in progress and leasing had not been disclosed in terms of Paragraph 117 of the standard.

(b) **Sri Lanka Accounting Standard 08**

(i) The Board had allocated unrealized profits of 25 per cent for the local cattles in the year 2015 in the valuation of biological assets and the said allocation had been reduced up to 10 per cent in the year under review. However, in terms of Paragraph 19(b) of the standard , the affect occurred by changing accounting policy had not been adjusted in the financial statements retrospectively.

(ii) In terms of Paragraph 42 of the standard, the entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issues after their discovery. However, restating the comparative amounts for the prior periods presented in which the error occurred had not been retrospectively corrected.

(c) **Sri Lanka Accounting Standard 10**

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The consolidated financial statements had not been prepared from the year 2014 to the year under review in terms of Paragraph 2 of the standard for the Sri Lanka Poultry Farming Development Private Ltd which is a subsidiary Company the right of control vested by the Board in the year 2014.

(d) **Sri Lanka Accounting Standard 12**

In terms of Paragraph 27 of the standard, forecasting had not been made whether the profits under the tax of the Board would not have been gained and the differed taxes had not also been accounted.

(e) **Sri Lanka Accounting Standard 13**

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The basis for the valuation of Rubber, Cashews and other cultivations amounted to Rs.20,409,767, Rs.1,356,806 and Rs.1,370,774 respectively which are shown as the commercial cultivations under the biological assets of the financial statements of the Board, had not been disclosed in the statement of financial position in terms of Paragraph 91 of the standard.

(f) **Sri Lanka Accounting Standard 16**

(i) Even though in terms of Paragraph 7 of the standard, the cost of the item should be measured reliability to recognize as an asset , the basis for valuation of the lands of 10,241.84 hectares in extent valued at Rs.225,189,438 which is shown in the financial statements and enjoyed by the Board could not be recognized .

(ii) When revaluation of any class of assets in terms of Paragraph 36 of the standard, all assets belonging to that class of assets should be revalued. However, the Board had not revalued 226 vehicles costing Rs.60,960,579 in revaluating vehicles in the year 2014.

(iii) As the useful life of the non-current assets had not been reviewed annually in terms of Paragraph 51 of the standard, 11,657 items of fixed assets costing Rs.179 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.

(iv) According to the survey reports at the end of the year under review, relating to 1205 items decided to sale at 14 farms and 1399 items decided to dispose had not been disclosed by the financial statements in terms of Paragraph 73(e) (ii) of the standard.

(v) The information relevant to the carrying amount of temporarily idle property, plant and equipment, the gross carrying amount of any fully depreciated property, plant and equipment that is still in use, the carrying amount of property, plant and equipment retired from active use and not classified as held for sale had not been disclosed in terms of Paragraph 79 of the standard.

(g) **Sri Lanka Accounting Standard 17**

(i) Even though the present value or the fair value of the future cash flows should be shown in the financial statements in the accounting of lessees in terms of Paragraph 25 of the standard, action had not been taken accordingly.

(ii) Action had not been taken to make relevant disclosures in terms of Paragraph 31 (b) of the standard, a reconciliation between the total of future minimum lease payments at the end of the reporting period, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the end of the reporting period , and their present value as not later than one year ,later than one year and not later than five years and later than five years .

(h) **Sri Lanka Accounting Standard 19**

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Even though according to the Paragraph 57 of the standard, the employees benefits should be valued according to the project unit credit method, the Board had calculated the Post-employment benefits based on formula method.

(i) **Sri Lanka Accounting Standard 20**

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The Capital Grants amounted to Rs.166,248,476 received for the purchase of capital assets from the General Treasury to the Board for the year under review and 5 preceding years , had been shown in the Statement of Comprehensive Income as Revenue Grants contrary to the Paragraph 24 of the standard.

(j) **Sri Lanka Accounting Standard 36**

Even though it had been shown under the notes of the financial statements that the annual estimate of impairment for the assets of the Board to be carried out in terms of Paragraph 9 of the standard, such an estimate of impairment had not been carried out.

(k) **Sri Lanka Accounting Standard 39**

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Even though in terms of Paragraph 46(a) of the standard , loans and receivables should be measured at amortised cost using the effective interest method, the employee loans of the Board had been calculated and accounted based on the interest ratio of the loan agreement.

(l) **Sri Lanka Accounting Standard 40**

Lands of 380.8 hectares in extent which had been leased out had been accounted under property, plant and equipment instead of being accounted as investment properties in terms of Paragraph 6 of the standard.

(m) **Sri Lanka Accounting Standard 41**

(i) In terms of Paragraph 43 of the standard, a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate had not been included in the financial statements.

(ii) Even though it had been stated in the financial statements that trees with a commercial value measured at the fair value ,the present value of the future cash flows of that assets are used in terms of Paragraph 12 of the standard, the cultivations valued at Rs.734,086,827 had not been valued accordingly.

2.2.2 **Accounting Deficiencies**

The following observations are made.

(a) Even though according to the Internal Circular No.3/2017 issued in respect of valuation of Biological Assets , the value of 34,453 animals such as laying hens, broiler cocks and quails at the farms of Haragama, Karandagolla and Miriswatta amounted to Rs.5,759,075 , the value of biological assets had been overstated by Rs.33,997,226 in the financial statements due to that value had been assed as Rs.39,756,301. Further, as a result of over valuation of the value of imported cattles at Menikpalama farm by Rs.25,011,620 ,the stock of livestock had been over stated by the same amount.

(b) The stock of livestock relating to 07 categories of animals of 05 farms had been understated by Rs.4,776,580 in financial statements than the value included in the physical survey reports of the year under review .

(c) Valuation had not been carried out by deducting 3 per cent out of the stock of 532,735 coconuts which were physically verified at the board of survey carried out as at 31 December in the year under review at the farm of Horakele according to the Internal Circular No.2/2017 in respect of valuation of biological assets. Further, the closing stock had been over stated by Rs.12,757,497 in the financial statements due to valuation made as Rs.61 each, instead of the lower value of Rs.37.30 from the present market price which is the unit price or from the final sale price sold at the farm.

(d) The initial fees of handing over the lands amounted to Rs.366,017 had been shown under the debtors instead of capitalized to the value of the vested land.

(e) The shortage of the closing stock of milk which continued to exist from the year 2012 relating to the Milk Project amounted to Rs.10,239,389 as at 01 January 2016 and the said deficiency amounted to Rs.19,324,017 as at 31 December 2016. Action had not been taken in terms of Financial Regulation 760 and make necessary adjustments in the financial statements even in the year under review. As a result of that, the profit in the year under review had been over stated by Rs.9,084,628.

(f) The general stock balance shown in the financial statements at the end of the year under review had been over stated by Rs.575,912 than the stock value shown according to the physical verification reports under each farm and each Project.

(g) A consolidated trial balance had not been prepared for the head office,32 farms and 4 Projects .Further, the following deficiencies were existed on the classification errors existed in the farms accounts presented and non- availability of classification methodology relating to the preparation of that accounts according to the final accounts of farms checked and clarifications of the officers .

(i) Failure to prepare journal vouchers with the Farm Accounts

(ii) Failure to follow a consistent accounting policy for the accounting of the transactions of the farms and preparation of financial statements.

(iii) Disagreements (differences) existed between the items of financial statements of farms and balances in each trial balance.

(h) The financial statements of the year 2015 audited and the following matters pointed out by the audit reports had not been rectified in the preparation of the financial statements of the year under review.

(i) Provisions for depreciations for the year 2015 has been understated by Rs.2,882,830.

(ii) Instead of writing off the cost of Rs.18,661,613 relating to 43 cows died during the year 2015 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 initial accumulative profit of the year 2016 had been overstated by Rs.16,770,446.

(iii) As the stock shortage of 663 items of goods valued at Rs.766,879 of the sales outlets of the Head Office existed by the end of the year 2015 had been shown under the trade and other stocks without making required adjustments, the initial accumulative profit of the year 2016 had been overstated by that amount.

(iv) A motor vehicle, the book value of which was Rs.148,172 had been sold at Rs.378,000 during the year 2015 and as the cost thereof had been transferred to the Disposal Account by understating Rs.214,190, Assets Account and the profit of the disposal had been overstated by that amount.

(h) According to the Counter-loan Agreement entered into between the National Livestock Development Board and the General Treasury for the Wellard Project ,the Department of Treasury Operations had confirmed that the loans totalling Rs.5,108,614,853 comprising Rs.1,963,095,836 and Rs.3,145,519,017 respectively for the first and second stages of the Project as at 31 December 2016 and loan interests thereon amounted to Rs.177,176,940. However, according to the financial statement as at 31 December 2016, loans totalling Rs.4,462,252,654 comprising Rs.1,655,132,600 and Rs.2, 807,120,054 respectively and the loan interest amounted to Rs.177,723,371 had been accounted and as a result of that, loan totalling Rs.646,362,199 comprising Rs.307,963,236 and Rs.338,398,963 respectively had been understated and the loan interest had been overstated by Rs.546,431 and brought to account.

2.2.3 Unreconciled Control Accounts

The following observations are made.

(a) Reconciliations of Rs.4,938,627,905 relating to 518 Ledger Accounts was existed at the beginning of the year under review due to failure to made reconciliations and adjustments with the Current Accounts, Money Transferring Accounts and other Control Accounts and each Ledger Accounts relating to that which the transactions are recorded between the Head Office of the Board and the farms and Projects belonging to that.

(b) It was observed that the unreconciled balances existed as follows due to failure to reconcile the Control Accounts between the Head Office and the Projects and between each Project at the end of the year under review.

(i) In the books of the Head Office , there was a debit balance of Rs.45,210,173 in 03 Control Accounts between the Head Office and each Projects , a credit balance of Rs.31,073,532 in 04 Control Accounts , a debit balance of Rs.10,733,014 in two Control Accounts of the Head Office and each Project in Project books, a credit balance of Rs.44,277,801 in 5 Control Accounts existed.

(ii) A debit balance of Rs.18,750,912 relevant to a Control Account between Projects , a credit balance of Rs.21,397,957 relevant to 5 Control Accounts were existed.

(c) Instead of transactions recorded under the Current Accounts and Deposit Accounts for 11 farms and 7 farms under the Milk Project Accounts and Farm Shop Accounts respectively in the year under review , sums totalling Rs.13,296,469 and Rs.1,132,494 respectively had been shown as a farm creditor in the Milk Project and the Farm Shop Accounts.

2.2.4 Unexplained Differences

Even though according to the financial statements ,the trade debtors balance under 17 farms amounted to Rs.51,352,663, the said balance amounted to Rs.36,966,128 according to the schedules presented, thus an unexplained difference of Rs.14,386,535 was existed.

2.2.5 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		
	(i) Coconut under /new cultivation	681,802,453	
	(ii) Cashew Cultivation	1,356,806	Schedules and stock valuation reports in respect of each farm for the total balance
	(iii) Rubber Cultivation	20,409,767	
	(iv) Grass fixing	29,147,027	
	(v) Other Cultivations	1,370,774	
	(vi) 8 categories of animals in 09 farms	99,148,658	- Stock Valuation Reports
(c)	Non-current assets- additions of the year		
	(i) Machinery and Equipment	2,462,967	Files relating to ensure that the procurement process had been followed and the evidence relating to the verification of expenditure.
	(ii) Structures	8,622,341	
(d)	Debtors older than five years		
	(i) Mahaweli Livestock Development Company	4,975,934	Written evidences relevant to confirm as receivable and confirmation of balances
	(ii) Line Ministry	10,512,864	
	(iii) Balance receivable from the Bank of Ceylon Kanthale Branch existing from the year 2009	2,092,150	
	(iv) Balance receivables under the Farm Shop (Old)	2,770,757	Detailed schedules and confirmation of balances
	(v) Debtors balances of the coconut brokers	10,678,072	.
	(vi) Down payments paid to the Land Reforms Commission in the year 2007	366,017	Confirmation of balances.

(e)	Debtors less than 5 years		
	(i) Trade and other Debtors		Detailed schedules and confirmation of balances
	Seven Farms	8,364,901	
	Two Projects	132,445	
	(ii) Debtors of the Staff		
	Sale of produced goods	3,589,115	Detailed schedules
	Loan Advances	26,434,718	
	(iii) Debtors balance of the coconut brokers	11,606,510	Letters of Confirmation of balances.
	(iv) Fines charged from coconut debtors	4,265,733	Time analysis
(f)	Prior Years Adjustments	202,270,951	Journal Vouchers, reconciliation statements
(g)	Employee Creditors, Trade and other creditors- 8 farms	105,128,563	Detailed schedules
(h)	Fixed assets relating to Milk Project and fixed assets existed at 109 closed sales outlets.	-	Register of Fixed Assets, inventories and evidences for the confirmation of physical existence.

(i) The Board had referred 195 letters for the confirmation of debtors balances amounted to Rs.184,854,794 and out of 13 letters of that only the confirmation of balances amounted to Rs.463,343 had been received. Replies had been received for the letter of confirmation of balances which was referred by enquiring a balance of Rs.355,804 for the Estate Co-operative Society by the Kovulwewa Farm as balance was not available. As mistakes had been made in the addresses of other 15 letters relating to the creditors amounted to Rs.1,365,372, those had been returned.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The trade and other debtors balance of Rs.184,854,794 existed as at 31 December of the year under review under the Head Office, 31 farms , Regional offices and 5 projects had included the debtors amounting to Rs.97,368,070 older than one year and out of that, a sum of Rs.32,018,611 represented the debtors older than 5 years. It had been 17.3 per cent of the total debtors.

(b) Action had not been taken for the recovery of the insurance claim of Rs.19.253,926 remained receivable from the year 2013 relating to imported and deceased cattles even by 31 May 2017.

(c) A loan balance amounted to Rs.8,503,519 from the Mahaweli Livestock Company which has been vested to the Livestock Development Board in the year 2015 should have been recovered from more than 3 years.

(d) Out of the balance of Rs.3,801,787 recoverable from the Plantation Human Development Trust from the year 2011 , only a sum of Rs.111,963 had been recovered in the year under review and the remaining balance of Rs.3,689,824 had not been recovered even up to 31 December in the year under review. Further, it had been informed that the approval of the Secretary to the Ministry had been obtained for the sum of Rs.2,957,521 included in the above balance which had been paid on 02 November 2011 . However, that approval was not presented to audit and it was observed that the said money has paid contrary to the statutory objectives.

(e) The debtors balance recoverable from more than one year relating to the sale of products to the employees of the Board amounted to Rs.1,530,648.

(f) A loan balance totalling Rs.22,284,582 comprising a loan balance of Rs.10,678,072 older than 5 years ,a loan balance of Rs.3,855,731 older than 3 years and less than 5 years 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 and coconut had been sold to that brokers continuously without being recovered that outstanding loan balances.

(g) The employee ,trade and other creditors balance of Rs.517,416,862 existed as at 31 December of the year under review under the Head Office, 32 farms and 2 projects had included the creditors amounting to Rs.146,148,298 older than one year and out of that, a sum of Rs.128,372,854 represented the creditors older than 5 years. It had been 25 per cent of the total creditors.

(h) Action had not been taken to settle the loan balances of Rs.26,746,567 older than 12 years payable to a private company in respect of supplying animal foods and the loan balances of Rs.279,450 older than 5 years, advances amounting to Rs.2,009,370 obtained from the agents existed from a period of 2 years.

(i) Out of the loan amounting to Rs,102,662,750 obtained by the Board from the Farmers' Trust Fund in the year 2003, the loan balance outstanding over a period of 13 years amounted to Rs.93,612,700. The total amount payable together with the interest of Rs.87,757,178 thereon as at 31 December of the year under review had been Rs.181,369,878.

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.9,487,130 as compared with the corresponding surplus of Rs.34,840,106 for the preceding year thus indicating a deterioration of Rs.25,352,976 in the financial result as compared with the preceding year. Even though the increase in the operating income by Rs.768,047,375 and other income by Rs.11,693,880 , decrease in the government grants by Rs.35,791,275 and increase in sales cost, administrative expenditure and financial expenditure by Rs. 607,107,075 , Rs.151,437,450 and Rs.33,245,554 respectively had mainly attributed to the above deterioration of the financial result.

Further, the net profit of the year under review had been over computed by the same amount as a result of accounting the Capital Grants of Rs.24,729,602 as Revenue Grants.

Analysis of the financial results of the year under review and 04 preceding years revealed that a loss in the year 2012 amounted Rs.26.29 million and it had been further increased by Rs.86.08 million in the year 2013. Nevertheless, the said profit had been decreased up to Rs.60.23 million and Rs.34.84 million in the years 2014 and 2015 respectively and a surplus of Rs.9.487 million had become in the year under review.

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.110.18 million in the year 2012 had increased up to Rs.263.77 million by the end of the year under review.

3.2 Analytical Financial Review

	Year 2016	2015	2014	2013	2012	2011
Current Ratio	0.37	0.42	0.79	0.99	1.11	1.31
Quick Ratio	0.21	0.24	0.51	0.66	0.73	0.65
Gross Profit Ratio	32.38%	37.25%	37.32%	34.31%	14.35%	29.60%
Net Profit Ratio	0.33%	1.85%	3.12%	-6.70%	2.09%	19.00%
Debtors Turnover Ratio	16.92	11.86	9.86	6.14	7.90	21.20
Fixed Deposits Turnover Ratio	0.91	0.85	1.23	0.94	1.34	3.98
Gearing Ratio	3.35	3.47	1.76	1.99	1.16	0.34
Debtors Collecting Period	21.57	30.77	37.01	59.43	46.20	17.21

The liquidity ratios of the Board had been continuously decreased from the year 2013 to the year under review and the continuous increase in the loans payable within the ensuing 12 months had mainly attributed for that decrease. Accordingly, it was observed at audit that a risk of arising liquidity problems could be existed. Further, the net profit ratios of the Board had gradually decreased from the year 2014 as a result of increase in financial and administrative expenses and the Board had been shown a high gearing condition for the Wellard Project and other long term loans. Accordingly, it was observed at audit that the problems could be arisen on the going concern of the Board due to the gearing risk and high gearing .

3.3 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, 13 cases had been filed by the external parties against the Board as 4 cases filed in respect of reacquiring the lands unauthorisingly cultivated by external parties and two quarries and 07 cases filed against the Board by 07 employees against the suspension of service , 02 cases filed by the police and the District Court.

(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.

(i) Establishment of the centres for the purchase of animals for meat at reasonable price.

(ii) Preparation of productions and sale

(iii) 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.

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

(v) 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.

(vi) Import and supply of breeding animals, medicines, machinery and equipment required for rearing animals.(including reners)

(vii) 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) Among the above activities , the activities such as the 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 are not fulfilled by the staff at present.

(b) Only the physical progress of the Livestock had been presented by the performance reports for the year 2016 for 32 farms belonging to the Board and a performance report showing the physical and financial progress of the whole Institute including agricultural ,other cultivations in the farms and the constructions and the progress of the Head Office and Projects in the Head Office had not been prepared.

(c) Comparison of the Action Plan presented to the audit by the Board relating to the year 2016 with the Performance Report , the following matters were revealed in respect of 382 activities relating to 09 Projects under 32 farms .

(i) Fifty four activities relating to 08 Projects of 20 farms included in the Action Plan had not been implemented and the progress of 68 activities relating to 25 farms and 08 Projects was between 1 per cent to 49 per cent .Accordingly, reasons for failure in implementing and proper fulfilling of the relevant activities had not been mentioned.

(ii) Four activities included in the Action Plan of the year 2016 relating to 03 Projects of 04 farms had not been matched with the targets of the performance report.

(iii) No any information in respect of 07 activities relating to 03 farms and 02 Projects included in the Action Plan had been included in the Annual Performance Report.

(iv) The targets of the year 2016 had not been included for 14 activities included in the Action Plan relating to 05 Projects of 09 farms.

4.2 **Operating Activities**

(a) Out of 32 farms belonging to the Board, one farm had been maintained as a training centre and 19 farms of them had been a condition of earning profits and 12 farms at a condition of incurring losses continuously during the previous 5 years. Accordingly, the cumulative loss incurred from the farms including the year under review amounted to Rs.661,307,034 and necessary action had not been taken by the Board by going into the reasons for such continuous loss incurred in that farms and convert the farms to profit making status. Further, the 3 farms such as Bopaththalawa, Dayagama and Menik Palama which were implemented under stage 1 of the Milk Cows Project commenced in the year 2011 had been incurred losses continuously and as such losses totaled Rs.174,150,906 had been incurred at the end of the year under review.

(b) The Board had entered into 2 Loan Agreements with Wellard Rural Exported Private Company under 2 stages for import of Milk Cows as USD.12,944,058 Under Stage I, on 19 August 2010 and USD 20,747,293 under stage II on 24 July 2014 . The following observations are made in this connection.

(i) The instalment and the interest payable by the Board by 31 December 2016 for the above loan amounted to Rs.1,339,517,078 and only a sum of Rs.24,812,576 had been paid as interests at the end of the year under review. The Chairman of the Board had informed by the Letter No.NLDB/FIN/024/98 dated 22 December 2017 to audit that the said instalment is unbearable to the Board as a large amount of money could be spent daily to the Board for the cows imported under stage 1 and stage II.

(ii) Even though the cabinet decision had been given on 28 May 2015 for the implementation of the decisions of the Committee with the concurrence of the Minister of Finance before implementation of the stage II of the Wellard Project according to the Agreement entered into between the Board and the Private Company on 24 July 2014, the implementation of those suggestions had not been properly occurred. Details given below.

- Even though according to the Agreement , it was shown that the Company agreed to provide the category of Jersey cows to the maximum level ,532 animals out of 1181 animals handed over to the country on 13 July 2015, 521 animals out of 1314 animals handed over to the country on 12 October 2015, were only the category of Jersey.
- Even though suggestions had been made in a manner to settlement of loans by a special committee, the said committee had not been appointed even up to 08 February 2017, the date of audit.
- Even though, if actions is taken to maintain the animals in the Ridigama farm for a long period , for generate an artificial environmental conditions ,suggestions had been made for alternative methodology for (Solar power) minimize the cost incurred for the electricity (amounted to Rs.5,729,028 in the year 2015 and increased by Rs.39,993,949 in the year 2016) ,action had not been taken even by 31 July 2017 in that connection.

(iii) Recommendation had been made for appoint operational units from the representatives of the relevant Subject Ministry, National Livestock Development Board, Animal Productions and Health Department, Wellard Rural Exports (Pvt) Company and the Ministry of Finance for the supervision and operation, financial management activities of this Project . However, this committee had not been appointed and according to the recommendations of that committee as shown for the use, the development of human resources , supervision expenses programmed , the agreed amount totalling Rs.70,690,202 of USD 506,333 for the maintenance of farms including spare parts and technical maintenance and expenses on capacity building had been spent without that recommendations. The written evidence for the confirmation of that expenses also had not been presented to audit.

(iv) Even though it had been stated that agreements made to supply the technical services up to the year 2019 in the note of the Ministry of Finance dated 20 May 2015 for the Cabinet Decision dated 28 May 2015, an agreement for such an extension had not been presented. Full retention money of Rs.152,355,158 equal to USD 1,037,135 had been paid without issuing certificates as to complete the work satisfactorily and the Project was succeeded.

(v) The National Livestock Development Board had entered in to an Agreement between the Wellard Rural Exports Company to complete the 2nd stage of this Project within two years from 14 July 2014. Accordingly, it had been agreed to import 2,500 animals USD 3032.87 per each animal , only 2,495 cattles had been imported on 13 July and 12 October in the year 2015. A sum of Rs.1,336,583 that is USD 9098.59 had been over paid more than the agreed amount as USD 7,576,101.28 by 11 October 2016 including the retention money.

4.3 Management Activities

The following observations are made.

(a) As a result of a feasibility study had not been conducted before the opening of sales outlets relating to the Milk Project , out of 152 sales outlets commenced in the year 2002, the number of sales outlets remained in operation by the end of the year under review was 43. Losses amounting to Rs. 2,459,924 had been sustained from 19 sales outlets during the year under review.

(b) 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 2017.

(c) Even though according to the Cabinet Decision No. අමප/16/0125/732/004 dated 11 February 2016, it had been decided to take over the farms at Kandekade and Trikonamadu which were controlled under Sri Lanka Army , action had not been taken to take over even at the end of the year under review and the necessary disclosures had not been made in financial statements in this connection.

4.4 Transactions of Contentious Nature

The following observations are made.

(a) A sum of Rs.37.50 million had been granted by the General Treasury 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 as per the 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.

(b) It was observed that the Circular No.03/2017 of the Board prepared to the valuation of animals under biological stocks was not prepared on a logical basis according to the following matters.

(i) A large difference observed in the rates used in obtaining the bio mass value included in the methodology used in valuation of local and imported catteles . A range between Rs.92 to Rs.200 and Rs.110 to Rs.910 per one kilogramme for the local catteles and imported catteles respectively existed and it was not observed that the methodology followed for the preparation of those rates prepared in a manner to identify transparently.

(ii) In the valuation of heifers that had not become pregnant ,valuation should be done according to the bio mass and the value of milk for that value (Daily normal milk production of the farmxRs.1,000)had been shown as it should be added.

(iii) In the valuation of heifers that had not become pregnant , 1,377 animals had not been valued according to the instructions of the Circular No.03/2017 of the Board. However, it had been shown that a value of milk amounted to Rs.10,051,700 relating to 1757 heifers on the number of daily normal litres of milk of the milch cows of other 9 farms had been added to the bio mass .

4.5 **Idle and Underutilized Assets**

It was observed that 54 houses of the Board situated in 7 farms 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 of 10241 in extent belonging to 24 farms maintained since years 1974 and 1992, the Board had constructed buildings valued at Rs.194,565,192 and structures valued at Rs.701,358,733.

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 , the Terms of Reference had not been given to the 04 Consultants except for the Veterinary Consultant from among the 05 Consultants. Further, without establishing the performance reports and the attendance registers of the Consultants, a sum of Rs.1,305,665 and Rs.2,294,423 had been paid respectively as allowances during the previous year and the year under review.

4.8 Market Contribution

According to the information of the Department of Census and Statistics and the Central Bank Reports, total milk production of the country amounted to 384,008,400 liters , coconut production was 3,011,000,000 nuts , poultry production was 21,056,020 animals during the year under review and out of that only the milk production of the National Livestock Development Board was 17,936,997 liters, coconut production was 21,000,000 ,poultry production was 2,762,213 animals . Accordingly, the contribution of the Board for the milk production was only 4.67 per cent , coconut production 0.7 per cent and poultry production 13.12 per cent thus the contribution was at a very low level.

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 16 June 2017.

5.2 Corporate Plan

The following observations are made.

(a) A Corporate Plan prepared in terms of Sections 5.1.3 of the Public Enterprises Circular No. PED 12 of 02 June 2003 should be presented 15 days before the commencement of the financial year. Nevertheless, the updated Corporate Plan of the year under review had been approved on 27 October 2016 and presented on 12 July 2017.

(b) The following matters had not been included in the Corporate Plan in terms of Section 5.1.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.

(i) The resources belonging to the Board at present.

- Information on lands , buildings of the Head Office.
- Production and Operating Facilities
- Human resources and management skills
- Technical knowledge
- Markets and suppliers

(ii) Organizational Structure

(iii) The management responsibilities included in the Action Plan relating to targets and objectives to be fulfilled in the planned period.

(iv) Information relating to the projects such as Delight, franchised sales outlets, milk projects and the sales outlet in the Head Office functioning under the National Livestock Board.

5.3 Action Plan

The following observations are made.

(a) 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 and the following matters.

(i) The statement of financial position, cash flow statement to be included in the Annual Budget.

(ii) Plan for the Recovery of loans

(iii) Description on the updated organizational structure ,approved cadre and the actual cadre of the Board.

(b) Even though it had been expected to purchase the online separation system at Rs.one million and Enterprises Resource Planning (ERP) system at Rs.8 million budgeted for the year 2016 and included in the procurement plan by the Information Technology Division, it had not been purchased. Further, the employee recruitments and employee trainings required for the operation of that systems had not been identified in the Action Plan of the year 2016.

(c) Even though the Action Plans had been prepared for the farms, the physical progress and the financial progress expected quarterly in the activities included therein , had not been shown.

5.4 Procurement Plan

The following observations are made.

(a) The commencement date as 01 January 2016 and the final date as 31 December 2016 of all purchases included in the Procurement Plan of the year under review had been shown and the definite period of that purchases should be done had not been mentioned.

(b) Instances unmatched each other between the values of Rs.23,757,800 included in the Procurement Plan which was obtained approval for the procurement for 36 items in 16 farms and the values of Rs.33,343,600 in the budget were existed.

5.5 Budgetary Control

The following observations are made.

(a) Even though 82 items in 22 farms had been included in the Procurement Plan for make procurement, the financial provisions required for that purpose had not been allocated by the budget.

(b) It had been mentioned that the facilities would be supplied for the training programmes for management of dairies and farm related training (Bopaththalawa, Dayagama, Menikpagama, Ridiyagama) for the graduates and diploma holders by the training centre of the Institute through the Procurement Plan prepared for 2016-2020 . However, even a definite procedure in that connection had not been included in the budget and the Procurement Plan of the year 2016.

(c) Even though approval had been received for the allocation of money for herding new milch cows in Rosita farm at the 469 th meeting held on 24 November 2015 ,it had not been included in the budget.

(d) Even though approval had been received for the construction of the piggery at the farm of Horakele at the 475 th meeting of the Board of Directors held on 28 June 2016 , it had not been mentioned in the budget and the Procurement Plan.

5.6 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 the date of this report.

(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) Accounting	(i) Certain Accounting Standards had not be followed in the preparation of Farm Accounts. (ii) Journal Vouchers had not been prepared for the journal entries.
(b)Valuation of the Biological assets of the farms	The valuation of stocks had not been done by an independent person
(c) Staff Administration	Recruitment, calling applications , provide marks for the interviews by the Board and submission of the information there on to the meetings of the Board of Directors had not been done transparently.