

Sri Lanka Poultry Development Company (Private) Limited – 2017

The audit of the financial statements of the Sri Lanka Poultry Development Company (Private) Limited (“the Company”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, 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 Comments and observation on the performance of the company which I consider should be furnished to the Parliament in terms of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Board’s Responsibility for the Financial Statements

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

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based 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 judgment, including the assessment of the risks of material misstatement 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 the Board, as well as evaluating the overall presentation of the 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 Basis for Qualified Opinion

- (a) The accuracy of the provision for depreciation for the year under review and the carrying amount of the property, plant and equipment amounting to Rs.5,210,107 and Rs.85,241,699 shown in the financial statements could not be ascertained in audit due to not maintaining a fixed assets register with required details.

- (b) Inventory to the value of Rs. 1,536,460 had not been taken into accounts of the previous year while it was not adjusted even in the accounts of the year under review. Hence, the opening stock as at 01 January 2017 and the cost of sales for the year under review had been understated by similar amount.
- (c) Trade and other receivable amounting to Rs.5,396,910 could not be satisfactorily verified in audit due to lack of audit evidence such as invoices, age analysis and confirmation etc.
- (d) According to the letter date 24 October 2017 of the commissioner of department of Inland Revenue, the company had to pay a tax liability of Rs. 27,682,676 for the period of 2000-2014. However, a provision in this connection had not been made in the financial statements even this was pointed out in my previous year audit report.
- (e) A difference of Rs.1,209,540 was observed between the balances of trade and other payable shown in the statement of financial position as at 31 December 2017 and the corresponding amount shown in the detailed schedule. Further, the confirmations in respect of trade and other payables amounting to Rs. 1,323,566 were not received for audit.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the matters described in Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the company as at 31 December 2017 and its financial performance and cash flows for the year then ended in Accordance with Sri Lanka Accounting Standards .

2.1.1 Report on Other Legal and Regulatory Requirements

As required section 163(2) of the Companies Act, No-07 of 2007, I state the following.

- (a) The basis of opinion and scope and limitations of the audit are stated above
- (b) In my opinion :
 - Except for the possible effects of the matters described in basis for qualified opinion paragraph, I have obtained all the information and explanations that were required for the audit and as far as appears from my examinations, proper accounting records have been kept by the Company.
 - The financial statements of the Company comply with the requirements of section 151 of the Companies Act, No- 07 of 2007.

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

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

Reference to laws, Rules and Regulations	Non- Compliance
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(a) Treasury Circular No. IAI/2002/02 dated 28 December 2002.	A fixed assets register had not been maintained in respect of computer accessories and softwares belonged to the company as at 31 December 2017.
(b) Public Enterprises Department Circular No. PED/12 of 02 June 2003.	
(i) Section 4.2.6	The quarterly progress report should be submitted to the line Ministry and the Department of Public Enterprise in General Treasury on or before 30 days before the end of the quarter. However, such reports had not been submitted by the Company.

3. Financial Review

3.1 Financial Results

The operations of the Company for the year under review had resulted in a pretax loss of Rs.15,284,383 as compared with the loss of Rs.17,948,695 in the preceding year, thus indicating a progress of Rs.2,664,312 in a financial results for the year under review. Decrease of administration expense by Rs.4,800,634 and increase of other income by Rs.1,708,396 had mainly affected to this improvement.

4. Operational Review

4.1 Performance

4.1.1 Planning

The cost estimate in the action plan for each project for the year 2017 was higher than the actual expenditure, and performance report for the year 2017 had not been prepared by the company.

4.1.2 Operating and Review

The following observations are made.

- (a) A trial balance for the year 2015 could not be obtained due to unavailability of data maintained by the system or manually. As a result opening balances had to be obtained from the previous year financial statements and the financial statements for the year 2016 had been prepared based on the balances of the previous year account, Further Ledger accounts had been prepared based on vouchers receipts and the cash book for the year 2016. Hence the accuracy of the opening balances of the year 2017 could not be assured.
- (b) At a sample test, it was observed that out of 301,220 eggs received to the hatchery unit, 200,639 eggs had been placed in the hatchery machine. Out of the 168,417 chicks born, only 161,117 were suitable for sale. Accordingly, the effectiveness of chick production was 53 per cent out of total number of 301,220 eggs as a result of operating condition of the old machine.

4.2 Management Activities

The following observations are made.

- (a) All the goods received and issued had been entered to the inventory books without a proper supervision. Therefore it was observed that adequate internal control systems had not been established to prevent fraud and errors.
- (b) Two civil defense personnel had been deployed for security under a shift basis for the entire farm and additionally two check roll employees had been deployed during the night time. However the security for valuable biological and immovable assets valued at Rs.3,149,794 and property, plant and equipment valued at Rs. 85,241,699. was insufficient.
- (c) Because of inadequacy of the Information which should be maintained by the security section including vehicle details and issuing orders had not been maintained by the company due to lack of security personal.
- (d) Confidentiality of quick book system passwords created for internal control had not been maintained by the company. As a result the accounts prepared for 2015, 2016,

2017 and related documents had been lost due to a mistake in the computer system. However even hard copies had not been pre-printed by the company relating to those information. Hence the back-ups of the computerized account information were not made available.

- (e) Duplicates of Cash receipts relating to sales of eggs had not been sent to the store supervisor and issuing of eggs had been done by the store supervisor based on the original copy presented by the Customers. Further. Stock taken out from the company had not been compared with dispatch notes by security guards and the stock books were maintained by the same officer without being segregated work. Therefore it was observed that a Proper internal control had not been implemented.

4.3 Human Resource Management

The following observation is made.

- (a) In terms of Management Services Circular No. 30 dated 22 September 2006 a Scheme of Recruitment(SOR) had not been prepared by the company and Salaries had been paid by the company contrary to the required scale of the Management Services Circular No. 02/2016. Dated 25 April 2016.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to the Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003 the financial statements should be submitted to the Auditor General within 60 days after the close of the financial year with copies to the line Ministry and the Department of Public Enterprises in General Treasury. However, financial statements of the year under review had been submitted on 8 August 2018.

6. Systems and Control

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

Control Area	Weaknesses
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(a) Procurements	Procurement Guidelines not being followed.
(b) Accounting	A Proper accounting procedure not being maintained.