

National Livestock Development Board - 2017

The audit of operational activities of the National Livestock Development Board for the year ended 31 December 2017 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. The financial Statements of the year 2017 had not been submitted up to the date of this report. My observations about the operations of the Board for the year under review which I consider should be tabled in the Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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.

2. Financial statements

2.1 Presentation of Financial Statements

The Draft Annual Report and Accounts had not been rendered to the Auditor General up to the date of this report even the Draft Annual Report and Accounts should be rendered to the Auditor General within 60 days after the close of the financial year in terms of section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

2.2 Existence of Assets and Liabilities

The details of the Assets, Liabilities, Income and Expenditure of the Board shown in the last Financial Statements of the Board prepared for the Year ended 31 December 2015 and 2016 are as follows.

	2016	2015
	-----	-----
	Rs.	Rs.
Non-Current Assets	6,285,763,738	5,980,906,735
Current Assets	786,880,486	619,824,684
	-----	-----
Total Assets	<u>7,072,644,224</u>	<u>6,600,731,419</u>
Equity	1,137,450,817	1,116,964,929
Non - Current Liabilities	3,810,940,996	4,010,224,408
Current Liabilities	2,124,252,410	1,473,542,083
	-----	-----
Total Equity and Liabilities	<u>7,072,644,223</u>	<u>6,600,731,420</u>

Income	3,051,546,983	2,307,597,003
Expenditure	3,042,059,852	2,272,756,898
	-----	-----
Surplus	<u>9,487,131</u>	<u>34,840,105</u>

2.2.1 The Going Concern of the Board

According to the Annual Report of the Ministry of Finance as at 31 December 2017, the loan amount payable to the General Treasury in terms of re-loan agreement of the National Livestock Development Board was Rs. 5,226,174,301. Further, according to the paragraph 16(2) of the Finance Act No. 38 of 1971, the credit limit for the year 2017 from the Public Enterprises Department had been increased from Rs. 75 million to Rs. 300 million and a loan amount of Rs. 210,333,333 had to be paid to the Governments Banks. As presented by the audit reports of the year 2015 and 2016, it was observed at audit that the problems could be arisen on the going concern of the Board due to the high gearing position and liquidity problems and observed that it had been requested to increase the loan amount of the Board up to Rs. 600 million in the year 2018 without improving the performance of the assets.

2.3 Non-compliance with laws, rules, regulations and management decision's

The following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations

Non-compliance

The Financial Regulations of Socialist Democratic Republic of Sri Lanka

The sub section 3:2 of the Nation Building Tax Act No. 9 of 2009.

A Nation Building Tax amount of Rs. 75,258 had been under-remitted due to error of calculations in the year under review.

3. Operating Review

3.1 Performance

3.1.1 Planning

(a) Corporate Plan

- (i) Updated copies of the Corporate Plan had not been forwarded to relevant parties at least 15 days before the commencement of each financial year in terms of section 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

- (ii) According to the Paragraph of the Public Enterprises Circular No.5.1.2, the matters to be included in the Corporate Plan such as the resources belonging to the Board at present, Organizational Structure, the management responsibilities relating to targets and objectives to be fulfilled in the planned period and Information relating to the projects such as Delight, franchised sales outlets, milk projects and the sales outlet in the Head Office functioning had not been included in the Corporate Plan for the 2016-2020 in terms of Section 5.1.2 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.

(b) Action Plan

- (i) According to the Budget and Procurement Plan of the year under review, even though amount of Rs. 13 million had been provided for the Information Technology Division, expected activities from that had not been recognized by the Action Plan of the year 2017.
- (ii) According to the performance report of the Ministry of Rural Economy for the year 2017, it had been presented that amount of Rs. 72.6 million had been spent out of total estimated investment value of Rs. 106.02 million relating to the 16 projects proposed to implement by of the National Livestock Development Board during the year 2017. However, such projects had not been forecasted in the Action Plan.
- (c) Only the physical progress of the Livestock had been presented by the performance reports for the year 2017 for 31 farms belonging to the Board and a performance report showing the physical and financial progress of the whole Institute including the performance of the main cultivation product of coconut and 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.

3.1.2 Operation and Review

The following observations are made

- (a) At the comparison of the Action Plan presented to the audit by the Board on 12 July 2017 relating to the year 2017 with the Performance Report, the following matters were revealed in respect of 294 activities relating to 10 Projects in 31 farms.
- (i) 40 activities relating to 07 Projects of 21 farms included in the Action Plan had not been implemented completely and reasons for failure in implementing and proper fulfilling of the relevant activities had not been mentioned in the performance report.
- (ii) According to the review of performance of the Board, progress of the 63 activities included in the Action Plan relating to 09 Projects of 23 farms were ranging one per cent to 49 per cent and reasons for failure in implementing and proper fulfilling of the relevant activities had not been mentioned.
- (iii) Eventhough 14 activities relating to 14 farms and 05 Projects had been fulfilled in the year but that activities had not been shown in the Action Plan of the year under review.

- (b) The functions required to be performed by the Board in terms of Section 2 of the State Agricultural Corporations Act, No. 11 of 1972 and the Gazette No.151 dated 14 February 1975, activities such as, 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 Board at present.

3.2 Management Activities

The following observations are made.

- (a) Even though according to the Cabinet Decision No. අම/16/0125/732/004 dated 11 February 2016, it had been decided to take over the farms at Kandakaduwa 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
- (b) According to the decision of the Cabinet of Ministers dated 08th July 2015 and No. අම/15/0940/631/018-I dated 08 July 2015, the Mahaweli Livestock Company had not been taken under control of the Board until 15 August 2018.
- (c) The total turnover as per the Nation Building Tax Return, Value Added Tax Return and Economy and Service Charge Return submitted to the Department of Inland Revenue during the year under review were shown as different values Rs.2,480,149,815, Rs.2,400,170,372 and Rs.2,486,787,349 respectively. However, comparison reports of that were not submitted to the audit.
- (d) A sum of Rs.37.55 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.
- (e) Board approval had not been obtained for 04 purchasing and construction opportunities which amounted to Rs. 11,555,012.

3.3 Operational Activities

The Board comes under grade B in terms of grading of 1.6 of the Public Enterprises Circular No.PED/12 dated 02 June 2003 and section 5.2.2 (a) of the Circular, if the capital expenditure for an projects exceeds the Rs.2.5 million, a proper feasibility study should be made before incorporation in the Capital Budget. However, 16 projects value of ranging from Rs. 5.2 million to Rs.23.63 million had been commenced without a feasibility study.

3.4 Idle and Underutilized Assets

According to the report of buildings had been presented to the Controller General as at 31 December 2017, it was observed that 81 employees' quarters located at farms remain idle and 126,341 square meters lands other than non-used buildings were not used.

3.5 Un-economic Transactions

The following observations are made.

- (a) The Marketing Plan for the year 2017 had not been prepared by the board, and 239,000 packing materials (Upper Heater Temperature) (UHT) value of Rs. 4,880,715 which had not included in the Procurement Plan of the year 2017 had been imported on 9 August, 2017. By 11 August, 2018, only 14,814 units or only 6.1 per cent of those valued at Rs.302,523 had been distributed through the use of those packaging materials, and it was observed an underutilization of resources of the Board due to weaknesses in the Plan
- (b) The Poultry Development Company (Pvt) Ltd, a subsidiary company of the Board, has a Recovery machine capacity of 19,600 units but the current production unit is only 10,000 units and it has not been renovated so that the machine can be utilized to the fullest extent. Further, although the main product of the Mahaweli Animal Products Company in Thambuththegama, which had been advised to take over the Board, Investment of Rs. 8,938,260 in a land belonging to the Janatha Estate Development Board on lease basis on 28 August 2017 for a poultry farm without any feasibility study was questionable. According to the Corporate plan, the Action Plan or the Capital Budget of the year 2017, there was not an intention to commencement of a poultry farm and according to the letter of the Regional Assistant General Manager, it was observed that such land obtained on lease basis was not belonged to the Janatha Estate Development Board. Accordingly, it was questionable in audit to make such a transaction by the Board.
- (c) Rs. 115,870 had been spent for paper advertisement of bidding of importation of pigs and sheep Project in the current year under review. However, the expenditure incurred on advertising for newspapers was an unproductive due to abandon of such project.

3.6 Staff Administration

According to the Paragraph 5.2.1 of the Establishment Code of the Democratic Socialist Republic of Sri Lanka, actions to be taken to fill the vacancies in the staff grade post without delay. The top senior staff level positions in the organization structure of the Board were in vacant 05 posts including General Manager, 02 Deputy General Manager Positions, and 02 Assistant General Manager Positions from 11 months to 02 years and 08 months to date. Actions had not been taken to fill the vacant and further following observations are made in this regards.

(a) The post of General Manager

According to the Paragraph 9.1 of the Chapter II of the Establishment Code, it is mandatory to obtain prior approval from the Cabinet of Ministers to reinstate a retired officer, and in terms of paragraph 9.10 of the Public Enterprises Circular No. PED 12 of 02 June 2003, any recruitment on contract, casual or otherwise and for any payments should have the prior approval of the Secretary to the Treasury. However, the former General Manager has been appointed to the acting post of General Manager of the Board since 16 January, 2018 and a sum of Rs. 127,000 which comprises monthly acting allowance of Rs. 110,000, Professional Allowance of Rs. 15,000 and Insurance Monthly allowance of Rs. 2,000 had been given. In addition, privileges which were previously entitled, a vehicle (Fuels for private use 960 km), a house and two employees had been offered. Even though, the contract term of the General Manager ends on 15 January 2019, any actions had not been taken to appoint a permanent officer for this post even up to date of this report.

(b) Acting appointment for the post of Deputy General Manager

- (i) As per Section 12.2.6 of Chapter VII of the Establishment Code of the Democratic Socialist Republic of Sri Lanka, two Assistants General Managers had been appointed to acting in the posts of Deputy General Manager (Corporations and Operations), Deputy General Manager (Livestock and Plantation Development) on the 17 October 2017 without obtaining the approval of secretary to the Line Ministry. However, the Deputy General Manager (Corporations and Operations) who had been interdicted had been recruited for service from 12 December 2017 but did not cancel the acting post of that post from 12 December 2017 to 31 August 2018 and Rs.36, 000 had been paid as acting allowances.

(c) The Accounting Section had become disenchanted due to vacant the posts for longer periods

Although there should be four officers in executive posts in the Accounts Division in relating to three posts, the position of the Manager and Assistant Manager were vacant from the year 2016 and from 11 months to the position of Assistant General Manager (Finance) was vacant. As a result, the financial statements of the year 2017 had not been submitted until 15 September 2018 and affected to weak the financial control.

(d) Assistant General Manager (Human Resources and Administration)

The vacancy of the post of Assistant General Manager (Human Resources and Administration) since January 2016 had been published in the public newspapers on 04 March 2017 and interviews were held on 31 May 2017 for 18 applications received. However, there was no recruitment for that post until the audited date of 04 September 2018. Therefore, it was observed that, the vacant of that post for 02 years and 08 months could be affected to vacant the 42 out of 105 main executive posts by 31 December 2017.

- (e) The post of Manager Supervising & Operations from 01 December 2015 and the post of Assistant Manager Supervising & Operations from 25 August 2011 where the date which recruitment procedure of the Board was prepared to 31 August 2018 were vacant for 2 years and 9 months and 7 years respectively.

(f) Granting the promotions without sitting for exam of Efficiency Bar in terms of the Scheme of Recruitment

According to the Scheme of Recruitment of Employees of the National Livestock Development Board approved on 24 August 2011, it is compulsory to pass the Efficiency Bar Exams for promotions and salary increments of officers up to grade one of the managerial level. However, it was revealed that 07 officers who were in the management service at the establishment of Scheme of Recruitment of Employees had been promoted to the post of Assistant General Manager without pass the Efficiency Bar Exams. Further, 43 senior officers in tertiary level pertaining to 11 positions and 12 senior officers of 02 Secondary Level positions had been recruited without any post-educational qualifications or required experience.

(g) Recruiting in violation to the Scheme of Recruitment

According to the sample test from the 01 January 2012 to 31 December 2015, it was observed that out of 43 senior, tertiary and secondary level officers recruited to the Board, 19 officers or 44 per cent were recruited without required professional or practical qualifications. The service of three senior officials was terminated on the lack of professional and practical qualifications, while 18 officers had resigned to the office on 25 October 2017 and it was observed that seven officials out of them did not have any professional qualifications. Accordingly, only 22 persons recruited were serving at the date of this report and but 09 of them had been recruited without the required qualifications according to the recruitment procedure. Therefore, it was observed that the recruitment procedure had been continuously violated by this entity.

3.7 Utilization of Vehicles

According to the information provided by the Board, the Board had 185 vehicles and the following observations are made according to the sample inspection carried out in relation to the control and utilization of motor vehicles.

- (a) According to the Regulation 1642 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka as soon as an accident occurred should be reported to the police. However, five accidents out of ten vehicle accidents were not reported to the police.
- (b) Even a preliminary report in terms of Financial Regulations 104 (3) or a final report in terms of Financial Regulation 104 (4) shall be prepared within seven days in the event of an accident, according to the sampling test of ten vehicle accidents, these reports had not been prepared and action had not been taken to recognized the responsible persons and recover that losses.

- (c) Contrary to the provisions 3.1 of Public Enterprises Circular No. 1/2015 dated 25 May 2015, in the internal Circular No. 29/89 dated 13 July 1989 of Livestock Board had been stated that the fuel limit of the Chairman of the Board had not been limited and the maximum allowance for private travelling of all the posts above the Assistant Manager's position is only 137 litres (approximately 1 litre to 7 Kilo Metres) close to 960 kilo metres. Further, those managers included officers below the category of HM 1-1, but the approval of the Department of Public Enterprises had not been obtained to overcome the provisions of the Circular.
- (d) According to the paragraph 3.2 of the Public Enterprises Circular No. 1/2015 dated 25 May 2015, in the special occasions where the monthly allowances paid for the official and personal use of the Chairman was not sufficient, the approval of the Secretary to the Line Ministry shall be obtained. However, fuel had been utilized without obtaining such an approval.
- (e) A vehicle reserved as pool vehicle was taken by the Chairman of the Board on 20 July 2018 and 2,483 kilometers had been run without record in the running chart until 01 August 2018. That vehicle was handed over to an officer in the office of Minister on 03 August 2018 and although the board had informed that such vehicle had been handed over to the Mahaweli Animal Trade Company, the evidences were not presented to audit to confirm it.

3.8 Market Share

According to the records of Department of Census and Statistics and Central Bank, the contribution of the Board for the entire milk production of the country was only 3.8 per cent, coconut production 0.6 per cent and poultry production 13.5 per cent thus the contribution was at a very low level.

4. Sustainable Development

4.1 Achievement of Sustainable Development Goals

Every public institution should act in compliance with the letter number NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and the United Nations Sustainable Development “Agenda” by 2030. With respect to the year under review, the National Livestock Development Board had not been aware as to how to take measures relating to the activities under purview of their scope. Consequently, the Company was failed to take actions to identify the sustainable development goals and targets relating to the activities thereof, along with the milestones in respect of achieving those targets, and the indicators for evaluating the achievement of such targets.

5. Accountability and Good Governance

5.1 Internal Audit

According to the Board Decision No. 493 dated 30 January 2018, Internal Audit Manager had been appointed to acting the post of Manager of Finance. As a result, it was observed that the performance of the tasks such as issuing internal audit reports, preparing and implementing the internal audit plans has become disenchanted.

5.2 Procurements and Contract Procedure

5.2.1 Procurements

(a) Procurement Plan

The Following observations are made.

- (i) According to the 4.2.1 (a) of the Government Procurement Guideline of 2006, Master procurement Plan had not been prepared by the Board
 - (ii) According to the paragraph 4.2.3 of the Government Procurement Manual of 2006, although the procurement time table should have been prepared, the Board did not have a specified period of time to purchase within the Procurement Plan of the year and it was stated that all purchases were inaugurated on 01 January 2017 and the complete as at 31 December 2017. Further, preparation of total cost estimates in terms of paragraph 4.3.1 (a) of the Procurement Guidelines, approval of it in accordance with the paragraph 4.3.2, the revising and updating the total cost estimate as per the paragraph 4.3.3 had not been done.
 - (iii) It was budgeted to purchase 157 items for 22 farms amounting to Rs.360.34 million, Rs. 5.18 million for 6 items in 04 sections at the Head Office, Rs. 1.93 million to purchasing 14 items to the Farm Shop sector, but they were not available in the Procurement Plan. Further, the value of 16 items of 08 Farms and an item in the Head Office during the year under review were indicated in the procurement plan as Rs. 41.03 million and it was Rs. 45.95 million in the budget.
- (b) According to the Paragraph 2.14.1 of Procurement Guideline and supplementary 33 dated 15 March 2017 the approval of the Cabinet Appointed Procurement Committee shall require to procuring the value over Rs. 250 millions. However, contrary to that, procurement activities had been done by the Procurement Committee of the Board when purchased food of cattle worth of Rs. 508,793,160 during the period from 01 October 2017 to 30 September 2018. According to the sample test carried out for the period 01 October 2017 to 31 December 2017, the standard of the foods had not been certified by a quality test even it had been spent Rs. 55,827,475 fo such purchasing.
- (c) The following observations are made at the verifications of documents in relation to the building of Fixed Assets amounting to Rs. 95,442,840 and purchased of 10 assets value of Rs. 70,955,950 during the year 2017.

- (i) According to the Paragraph 4.3 of the Government Procurement Guideline, a total cost estimate was not prepared for 9 contracts worth Rs.47, 322,950.
- (ii) According to the Paragraph 5.4.8 and 8.9.3 of the Government Procurement Guideline, Performance Securities, performance guarantee and written agreement had not been signed in relation to the 5 contracts worth Rs. 9,276,427.
- (iii) According to the Paragraph 5.6 of the Government Procurement Guideline, specifications shall be prepared prior to the bidding. However, specifications had not been prepared to purchase two Ice Cream Machines for Rs. 439,975 and incomplete specifications had been prepared when purchased 08 Mobile Electric Fences for Rs. 1,733,602 and two cool rooms for Rs. 5,366,123. Further, in terms of paragraph 7.11.1 of the Government Procurement Guideline, a Bid Evaluation Report had not been prepared when purchased of Electric Fences.
- (iv) According to the Paragraph 8.12.3 of the Government Procurement Guideline, officer in charged shall issue a Certificate ensuring that the goods had been received and they are in accordance with the specifications. However, an animal foods mixing machine for Rs. 3,037,850 and 08 Electric Fences for Rs. 1,733,602 (without Taxes) had been purchased without issuing such a certificate.
- (d) An advance of Rs. 4,391,522 or 20 per cent of total procurement value had been paid in relating to the construction of two cool rooms for Rs.5,366,123 and fixing two Blast Freezers for Rs. 16,591,487 of a poultry farming project on 17 May 2017. However, the project had not been completed up to agreed completion date as per the agreement and the advance bond given at the advance obtained were matured on 30 September 2017, but the construction was not completed in a farm up to that date.

5.2.2 Delayed projects

In the year under review, even a cool room and the Blast Freezer needed for the poultry preparation at the Mahaberiyatenna farm had been supplied by spending Rs. 10.98 million, the chicken processing project was not started by 10 September 2018 due to the lack of installation.

5.3 The budgetary Control

According to 5.2.4 of the Public Enterprises Circular No PED/12 dated 02 June 2003, the draft budget had to be submitted to the Board of Directors for approval before three months prior to the commencement of the financial year. However, it was submitted on 31 January 2017 after the delay of 4 months. Accordingly, the budget of the year to be submitted to the relevant institutions within not less than 15 days to commencement of the relevant year in terms of 5.2.5 of the circular has been delayed and a budgeted balance sheet had not be presented to the audit in terms of 5.2.1 of the circular.

5.4 Unresolved Audit Paragraphs

The following observations are made.

- (a) The buildings value of Rs. 194,565,192 and Structures value of Rs. 701,358,733 had been constructed in the 24 farms as at 31 December of the year 2016 maintained by the Board from 1974 and 1992 without properly undertaking the ownership of such lands. However, the Board had not taken over these lands even as at 31 December 2017 and in response it was stated that the granting the ownership by the gazette notification was delayed due to the delay of the Land Reform Commission.
- (b) The following matters which should be included in the project action plan had not been included in terms of paragraph 5 (2) of the Public Finance Circular No. 01/2014 dated 17 February 2014.
 - (i) The dairy project of the company, Franchise Project, Delilat Project and Farm Chart projects and the activities of the head office.
 - (ii) The statement of financial position to be included in the annual budget
 - (iii) The loan repayment plan
 - (iv) The updated organizational structure of the Board, approved Cadre and information in relation to the existing Cadre and present staff of the updated organization.

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 system and control.

Area of Systems and control fields	Observations
-----	-----
(a) Control of Purchasing	Not following the procurement guidelines
(b) Vehicle Controls	<ul style="list-style-type: none"> (i) Allocating Vehicles and payment of allowances to officials contrary to the circular instructions. (ii) The daily running charts and monthly summaries had not been submitted to the Auditor General (iii) Vehicle log books and vehicle registrations had not been updated and a record of vehicle accidents had not been maintained. (iv) A physical verification of vehicles had not be done
(c) Staff Administration	Recruitment had been made in contrary to the recruitment procedure and no actin had been taken to recruit for vacancies