Milco Private Limited - 2018

1.1 Disclaimer of Opinion

The audit of the financial statements of the Milco Private Limited for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitutions of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should report to Parliament appear this report.

I do not express an opinion on the financial statements of the Company. Due to the significance of the matters discussed in the Basis for Disclaimer of opinion section, I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the facts set out in paragraph 1.5 of this report.

1.3 Responsibilities of Management and Those Charge with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Management determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Company's financial reporting process. As per section 16(1) of the National Audit Act No.19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the company.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect material misstatements when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing standards, I exercise professional judgment and maintain professional scepticism throughout the audit, I also

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resource of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with reference to the relevant standard	Comments of the management	Recommendation
(a)	Although the balance of assets, liabilities and income and expenditure should not be offset in the financial statements except when allowed in accordance with paragraph 32 of Sri Lanka Accounting Standard 01, the company had offset credit balances of Rs.31,437,088 to trade debtors and other receivables and shown in the financial statements.	The audit committee of the company has already been informed about these balances and they will be written off with the approval of the board of directors.	Assets, liabilities and income and expenditure balances should not be offset and presented in the financial statements except where permitted by the standard.
(b)	The cost of Rs.172,639,245 fully depreciated property, plant, and equipment was still in use by the company, but as per paragraphs 50 and 51 of Sri Lanka Accounting Standards (LKAS) 16, the useful lives of the relevant assets had not been reviewed annually and necessary adjustments had not been made in the accounts.	The need for verification and revaluation of the company's assets had been identified and related actions will be taken very soon.	Assets that are further utilized should be revalue and accounted for as per the provisions of the standard.
(c)	According to Sri Lanka Accounting Standard 19, in the calculation of employee benefit obligations, the employee benefit obligations were calculated considering the profit as Rs.80,551,142. But according to the comprehensive income statement profit was Rs.69,273,982 and there by Rs.11,277,160 difference was observed.	The value under comprehensive income was Rs.69,273,982 and the value stated under income tax was Rs.11,277,16 and accordingly, the total sum was Rs.80,551,142.	Employee benefit obligations must be properly accounted for in accordance with the provisions of the standard.
(d)	According to Sri Lanka Accounting Standard No. 21, transactions should be recorded according to the foreign exchange rate prevailing on the day any payment is made. However, the company did not do	60% of the cost, 30% as an advance based on the year-end exchange rate, and 10% as retention expenses based on the year-end exchange rate had been	Work in progress should be accounted for at the correct exchange rate as per provisions of the standard.

	so, and according to the year-end exchange rate, for the construction works of the Badalgama New Milk Factory and for the importation of spare parts for related machine equipment, of the advance amount related to the year 2018, Rs. 748,015,807 had been transferred to the work in progress account. Accordingly, the advance amount to be credited was Rs.576,287,497, and Rs.171,728,310 had been credited in excess to the work in progress account.	capitalized based on the Treasury's exchange rate paid for the relevant goods.	
(e)	On 17 January 2013, an ice cream cone filling machine was purchased by the head office at a cost of Rs.15,445,587 and delivered to the dairy factory at Digana in April, 2014, and it remained idle as of the audit date of 16 November 2021. As per Paragraph No. 12 (e) of Sri Lanka Accounting Standard 36, the impairment adjustments were not made and the parties responsible were not identified and necessary actions were not taken.	No final decision has yet been taken regarding the action to be taken in relation to these non-performing assets. Therefore, the balance is shown under capital works in progress.	Impairment adjustments should be accounted for the ice cream cone filling machine as per the provisions of the standard.
(f)	A yogurt mixing machine worth Rs.104,177,779 purchased on 20 January 2011 for installation at the Colombo factory was installed at the Polonnaruwa factory on 30 August 2013. Due to technical faults in this machine, it remained unusable from the date of purchase till the audited date of 16 November 2021. As per Paragraph No. 12 (E) of Sri Lanka Accounting Standard 36, the impairment adjustments were not made and the parties responsible were not identified and necessary measures were not taken.	The final decisions regarding the actions to be taken regarding this asset have not been taken so far. Due to this, it will be capitalized and make a provision for depreciation.	Impairment adjustments should be accounted for the yogurt mixing machine as per the provisions of the standard.
(g)	According to the company's management and performance reports, the Ambewela factory, which has been constructed under the modernization project, received liquid	Along with these projects, several projects related to increasing the local milk supply (such as cattle import) were to be	Impairment adjustments should be accounted for Badalgama factory as per the provisions of the

	milk for 26 percent and 25 percent of the machine capacity in 2018 and 2019 respectively. After the completion of the currently under construction Badalgama factory, according to the machine capacity of the relevant factory, it has been reported that the company needs 600,000 liters of liquid milk per day. It was observed that these machines are not being used to their full capacity as the daily liquid milk that can be collected by the institution is about 200,000 liters at present. Accordingly, as of 31 December 2018, impairment adjustments had not been made as per Paragraph No. 12 (e) of Sri Lanka Accounting Standard 36 for machines costing Rs.10,957,945,499.	implemented, but due to their not being implemented properly, this underutilization has occurred. In this regard, the necessary measures to increase the milk supply will be taken by the Ministry in the future and at the same time it was expected that the milk required for full utilization will be received by the company in the near future.	standard.
(h)	According to Sri Lanka Accounting Standard 39, when valuing loans and other receivables, Amortized Cost should be valued using the effective interest rate. However, due to the company's failure to act accordingly, the audit cannot be satisfied that the balance of loans and other receivables of Rs.1,288,433,433 shown in the financial statements has been accounted for at the correct value.	For the company's loans and other receivables, a comparison has been made before for the valuation of the accounting notes to be done under the impairment value, and the changes to be made to the accounts under that are not substantial, so the adjustments have not been made.	The balance of loans and other receivables should be accounted for at the correct value as per the provisions of the standard. .

1.5.2 Accounting deficiencies

	Audit Observation	Comments of the management	Recommendation
(a)	The remaining opening balance of the year under review was Rs.5,192,173.12 Euros from the advance money given for the construction of Badalgama Dairy Factory, and which was Rs.934,383,475 when calculated according to the opening exchange rate of the year under review. But the opening balance was shown as Rs.560,536,942 under long term advances in the financial statement. Due to this, the	The capitalization of the 30% advance payment was done under the respective exchange rates in the respective years and due to the difference in the exchange rates, the balance of the advance account was shown to be less than the required balance by 2018. To correct this difference, the total value has been adjusted during this year with the foreign exchange difference related	The impact of changes in the foreign exchange rate should be accurately calculated and the balance of long-term advances and debt owed to the government should

	effect of the change in the foreign exchange rate in the year under review was overestimated by Rs.373,846,533, so the long-term advance account and the debt balance owed to the government had been overestated by that amount.	to the previous years.	be valued.
(b)	The amount of depreciation for the year related to property, plant and equipment in the statement of comprehensive income was Rs.493,952,107, but according to Note No. 3 of the statement of financial position, the amount of depreciation for the year was Rs.542,428,556 and thereby there was a difference of Rs.3,175,911 between the two respective balances.	The sum of the 03 items manufacturing expenses, administrative expenses and distribution expenses in the comprehensive income statement is equal to the depreciation balance of property, plant and equipment.	The amount of depreciation for the year relating to the property, plant and equipment should be accounted for at the correct value.
(c)	According to note No. 3 of the statement of financial position, the balance of property, plant and equipment as at 31 December 2018 was Rs.9,143,350,785, but according to the schedule, the balance of property, plant and equipment was Rs.9,140,150,838 on that day, and a difference of Rs.3,199,946 was observed between the two balances.	In extracting the balances of the respective factories to the final balance, the value of several fully depreciated assets had been omitted here.	The balance of the year relating to property, plant and equipment should be accounted for at the correct value.
(d)	According to note No. 3 of the statement of financial condition, as at 31 December 2018, the accumulated depreciation of property, plant and equipment was Rs.2,691,849,950, but according to the schedule, the balance was Rs.2,688,650,004, and a difference of Rs.3,199,946 was observed between the two balances.	In extracting the balances of the respective factories to the final balance, the value of several fully depreciated assets had been omitted here.	Accumulated depreciation balance related to property, plant and equipment should be accounted for at the correct value.
(e)	The advance balance of Rs.11,307,636 which had been given as employee advance for various tasks by the company for more than 10 years, had not been settled. There were Rs.384,275 and Rs.3,498,375 advances in the remaining advance balance that paid for construction	The respective departments are continuously informed about this issue and the settlement of these balances is done according to the answers received. Furthermore, a list of balances has been forwarded to the audit committee to get the necessary	Arrangements should be made to collect the money given as advance to the employees in due time.

	in 2012 and 2014 and had not been settled.	instructions to start an audit or write-off these balances.	
(f)	The balance of Rs.100,000 and Rs.821,564 received for sale of vehicles included in advances, deposits and prepayments balance in the financial statements were shown as credit balance.	The amount of Rs.100,000 received for vehicle sales had to be shown in the advance balance of 2018 because the said vehicle was not taken in that year. This has been carried forward in the year 2019 and relevant adjustments have been made in the year 2019.	Advances, deposits and prepayments should be properly accounted for.
(g)	As per the schedule as at 31st December 2018, although the balance of prepayments was Rs.25,500,823, the value included in the balance of advances, deposits and prepayments in the financial statements was Rs.18,847,532 and there was a difference of Rs.6,653,291 between the balances.	Most of the goods and services related to the values mentioned in the schedule have been received by our company by the end of 2018 and due to the errors and deficiencies in the documents related to them, these offsets have not been made until now.	Advances, deposits and prepayments should be properly accounted for.
(h)	Although the trade debtor balance in the Ambewela factory financial statements was Rs.138,211,444, the balance as per the schedule was Rs.137,441,575, and thereby there was a difference of Rs.769,869 between the balances.	Total debt value of total factories was Rs.140,836,275 and the values of Rs.229,000- and Rs.154,851.14- are not included in the debtors schedule. Accordingly, the value of Rs.140,452,424 in the schedule was equal to the debtor balance in the financial statements after removing the above-mentioned values. There was a difference of Rs.769,869 due to the difference between financial statements and classification of debtors in schedule.	Trade debtors should be properly accounted for.
(i)	According to the debtor age analysis of Polonnaruwa factory, the balance was Rs.83,633,04 6, but according to the schedule submitted to the audit, the balance was Rs.83,232,275, and thereby there was a difference of Rs.400,771 between the balances.	As per debtor age analysis Rs.83,633,046.00 value is the correct value. Here Rs.400,771.00 sundry debtors have been omitted from the schedule.	The information submitted to the audit should be presented accurately and completely.

(j)	According to the financial statements, the gross income was Rs.11,849,851,230, but according to the submitted schedule, the income was Rs.11,760,545,396, and there was a difference of Rs.89,305,833 between the balances.	Since the company's accounts are processed without software, there may be some delay in recording the income and expenses related to a certain period. However, all these balances have been correctly extracted for the year-end accounts. A relevant arrangement can be obtained from the respective factories.	The information submitted to the audit should be presented accurately and completely.
(k)	According to Note No. 16 of the financial statements, the sum of current service cost and interest cost in calculating the employee benefit liability for the year under review was Rs.87,046,552. A difference of Rs.5,591,980 was observed, because sum of Rs.81,454,572 shown in the cost of sales and employee expenses in the financial statements.	The final balance is equal to the sum of company's customer loyalty production costs, administrative costs, distribution costs and the cost balances related to the milk collection sector.	Employee benefit obligations must be properly accounted for.
(l)	There were negative balances amounted to Rs.18,558,260 in other income of head office and accordingly other incomes were understated by that value.	Answers had not been given.	Abnormal balances in the accounts should be identified and corrected.
(m)	Since the period of the American dollar fixed deposit is from 6 July 2018 to 6 July 2019, the interest due on 31 December 2018 should be accounted as fixed deposit interest, but the company had capitalized Rs.10,902,220 to the fixed deposit. And its withholding tax value was Rs.527,115. Therefore, the fixed deposit was overstated by Rs.10,902,220 and the fixed deposit interest receivable and withholding tax receivable were understated by Rs.10,357,105 and Rs.527,115 respectively.	Calculations and double entries regarding the dollar deposit and its interest income have been correctly given and the information related to this issue has already been submitted to the audit.	Interest receivable and withholding tax receivable on fixed deposits should be properly accounted for.

(n)	From 01 January 2019 to 07 February 2019, an amount of Rs.1,754,669, which is the interest income related to the fixed deposit, was included in the interest income of the year under review, so the interest income was overvalued by that amount.	The calculation of interest income has been done correctly and the related calculation documents have been given to the audit.	Interest income related to fixed deposit should be properly accounted for.
(o)	The negative tax balance of Rs.8,745,377 was deducted from the accounts payable.	These problems have arisen based on the unchanging and non-moving balances of the company's accounts for a long time. The audit committee has been directed to take further steps for these balances.	Abnormal balances in the accounts should be identified and corrected.
(p)	Reconciliation of the Nation Building Tax balance stated in the individual factory accounts with the Nation Building Tax balance stated in the financial statement revealed a total difference of Rs.577,307 in the accounts of Colombo Dairy Factory, Ambewela Dairy Factory and Polonnaruwa Dairy Factory.	This may be a problem of balance extraction and tax payments and related accounting has been done correctly.	The balances in each factory account should be reconciled with the balances in the financial statement.
(q)	Deferred tax assets of Rs.188,811,584 had been shown in account note No.14 of the financial statements and in calculating it, the deferred tax asset has been understated by the same amount due to not taking the deferred tax effect of Rs.1,693,491 related to stock provisions.	It is an accounting error and proper adjustments will be made in future years.	Deferred tax assets should be accurately calculated and accounted for.

(r)	According to the schedule submitted with the statement of financial position, the final manufacturing stock value of the head office's regional outlet was Rs.39,174,887 as on 31 December 2018 and according to the company's consolidated manufacturing account, the regional outlet's final product stock value was Rs.37,989,723. Accordingly, a difference of Rs.1,185,164 was observed between consolidated schedule and final manufacturing stock values of regional outlet adjusted in manufacturing account.	This change is an accounting error and the relevant officer has been informed to prepare a balance comparison. The correction will be made in the next year.	The final manufacturing stock values of regional outlet shown in the statement of financial position should be adjusted with final manufacturing stock values of regional outlet.
(s)	It was observed that due to under-adjustment of final manufacturing stock value of Rs.6,373,221, the company's manufacturing account shows cost of sales higher by Rs.6,373,221 and profit lower by Rs.6,373,221.	It had been corrected.	Manufacturing stock values should be accurately accounted for.
(t)	In Ambewela Dairy Factory, it was observed that there is unusable packing material worth Rs.11,137,515 in the closing stock of packing material in the year under and accordingly the profit and closing stock was overvalued by that value.	These stocks will be disposed of in future with proper approvals.	The stock of unusable packaging material should be removed from the final stock.
(u)	According to the non-issued stock schedule of the Colombo Dairy Factory, raw material and packaging material surplus stock values were Rs.19,439 and Rs.6,073,274 respectively and accordingly the profit and closing stock had been overestated by those amounts.	These stocks will be disposed of in future with proper approvals.	Unusable packaging material must be removed from the final stock.
(v)	According to the schedule submitted with the company's income statement of the Colombo Dairy Factory, the stock write-offs and exemptions under sales and distribution expenses was Rs.23,622,718 but according to the stock write-offs and exemptions schedule given to the audit, the stock write-offs and exemptions for the	As per the final accounts of the Colombo Dairy Factory, Under other expenses Write-off 5,132,845.03 Exemptions Under other expenses 6,666,772.10	Stock write-offs and exemptions must be submitted correctly to the audit

	year was Rs.24,099,106. Accordingly, a difference of Rs.476,388 was observed.	For employees (Hampers) 2,670,847.30 Selling and distribution 9,152,254.29 Total **18,489,873.69** **GrandTotal** **23,622,718.00**	
(w)	A difference of Rs.733,447 was observed as the value of the stock of packaging materials at the head office as on 31 December of the year under review was Rs.25,404,514 as per the consolidated schedule submitted with the consolidated statement of financial position of the company but as per stock verification reports it was Rs.26,137,961.	Packing material value as per stock verification reports 25,404,514/= Balance as per main ledger of head office 25,404,514/= Balance as per Warehouse ledger (25,208,955/71) Difference 195,558/29 ======== Warehouse goods receipt slips and goods issue slips are computerized in the computerized system acquired by Management Services Limited (M.S.L) which is done according to routine method and cannot be hundred precent equivalents with manual tallying. The difference is that the head office ledger and warehouse ledger are more than 15 years old.	Stocks shown in stock verification reports should be reconciled with consolidated statement of financial position.
(x)	The debit balance of the company's trade creditors for more than 5 years was Rs.4,142,872 and the debit balance of the expense creditors which was Rs.12,564,281 was offset against the credit balance of the creditors.	This error has arisen on old balances that have remained unchanged for years. These errors will be resolved in future with proper approvals.	Debit balances of extraordinary trade creditors must be settled.

(y)	In the company's financial statement, under Note No. 15.1.3, the initial balance of the loan obtained from the Sri Lankan Government Treasury was Rs.15,781,118,709, but according to the schedule, the loan balance obtained for the factory modernization project and the Badalgama project was Rs.15,780,863,322. The loan amount received during the year under review was Rs.2,140,219,033 but under the note No. 15.1.3 amount was Rs.2,139,963,647. Accordingly, the difference of Rs.255,386 in the opening balance was offset against the difference in the amount received without recognition.	The error in these opening balances has been offset by the balance during the year. The year-end balances have been recorded correctly.	Credit balances taken from the treasury should be accurately recorded in the statement of financial position. .
(z)	According to paragraph 2.04 of the agreement between the company and the Department of Foreign Resources for the factory modernization project, all the expenses incurred by the Department of Foreign Resources related to the project, with the exchange variation, were to be borne by the company. Accordingly, the loan balance due on 31 December 2018 related to the above project should be valued and accounted for at the foreign exchange rate at the end of the year as per paragraph 23 of Sri Lanka Accounting Standard 21. Thus, as the adverse effect of foreign exchange rate variation that should be accounted for from 2013 to 2018, Rs.1,339,422,864 has not been accounted for, the liability of the company has been undervalued and the accumulated profit has been overvalued by an amount equal to that value.	The Treasury has been informed that the company has no ability to repay the loans related to these projects, and as a result, the loan amount related to factory renovation in 2021 has been capitalized.	As per the provisions of the standard, the effect of foreign exchange fluctuations should be adjusted to the outstanding loan balance.
(aa)	As of 31 December 2018, the loan balances of the 02 loan programs namely the Dairy Factory Modernization Project and the Badalgama Project were Rs.5,685,332,903 and Rs.9,419,337,943 respectively according to the 814 report of	Comments had not been presented.	The loan balances of the 02 loan programs namely the Factory Modernization Project and the

	the Treasury and according to the company's financial statements, the loan balances of the Dairy Factory Modernization Project and the Badalgama Project were Rs.6,632,384,381 and Rs.11,288,333,525 respectively. Accordingly Rs.947,160,541 and Rs.1,868,995,557 differences were observed.		Badalgama Project should be compared with treasury balances and accurately recorded in the financial statement.
(bb)	According to the reports of the Treasury Operations Department of the Ministry of Finance, the loan was repaid by the Treasury to the concerned bank on the last day of the year under review under the Factory Modernization Project, but the amount that was not reimbursed by the company to the Treasury was Rs.4,501,780,602, which was 2,130,712,842 more than what was shown as Rs.6,632,493,444 in the company's financial statements and Rs.790.127.700 which is the interest to be paid was also not accounted for.	The Treasury has been informed that the company has no ability to repay the loans related to these projects, and as a result, the loan amount related to factory renovation in 2021 has been recapitalized.	The loan amount taken for the factory modernization project and the related interest should be properly accounted for.
(cc)	According to the company's financial statements, the initial bank loan balance was Rs.363,545,693, but according to the schedule, the balance was Rs.363,801,080, a change of Rs.255,387 and the value of payments made during the year under review was Rs. 102,115,013, but there was a difference of Rs. 255,387 by showing it as Rs. 101,859,626 in the financial statements.	The calculations related to this change have been referred to the audit department.	According to the financial statements, the correct schedule related to the bank loan balance should be submitted.
(dd)	The schedule for provision of stock amounted to Rs.12,096,362 was not submitted for audit during the year under review.	Comments had not been presented.	The information required for the audit should be submitted.

(ee)	Although the annual interest value to be accounted for on loan instalments was Rs.37,387,517 and Rs.38,063,199 presented in the financial statements and thereby difference was of Rs.680,476 from Rs.38,063,199.	The calculations related to this change have been referred to the audit division.	The annual interest value to be accounted for on loan installments should be accounted for correctly.
(ff)	It was observed that Rs.6,559,174 worth of stock was included under the closing stock of the year under review at Ambewela Dairy Farm as unissued stock. Also, 408 items of unrecognizable engineering stock have been removed from use, and accordingly, the profit and ending stock were overvalued by that amount.	The decommissioned stock related schedules have already been brought to the attention of the Audit Committee and will be written off / disposed of with proper approvals.	Unissued stocks should be identified and necessary arrangements should be made with proper approvals.

1.6 Accounts Receivables and Payables

1.6.1 Accounts Receivables

	Audit Observation	Comments of Management	Recommendation
(a)	As a budget proposal, Rs.278, 981,206 included in various debtors as subsidies due from the Government of Sri Lanka for payment to dairy farmers and Rs.6, 909,758 due from the Ministry of Agriculture and Livestock were not taken or any related actions were taken.	This balance is over Rs.400 million and during the year Rs. 160 million has been received by the institution. In future financial needs, the organization can get money systematically.	Action should be taken to take proper action to recover what is due
(b)	The total trade debtor balance of the Colombo Dairy Factory was Rs.387, 384,930, of which Rs.33,063,229 worth of debtors were overdue balances.. 75 debtors worth Rs.23,301,860 were identified as non-performing loans included in the outstanding balance for Highland products issued on credit basis. It is 68 percent of the outstanding balance over one year. The company had not taken any legal action against those debtors.	The company's debtors are based on bank guarantees and the outstanding debtors are recovered from those guarantees. And if there are amounts that are not covered by it, legal action will be taken.	Action should be taken to take proper action to recover what is due.

(c)	According to the schedule, the trade debtor balance of Digana Factory was Rs.77,796,261, of which Rs.6,345,394 was the balance exceeding 5 years, which was 8 percent of the total debtors.	The chargeability and accuracy of these old balances will be re-verified and related action will be taken in future.	Action should be taken to take proper action to recover the due debtor balances.
(d)	Animal feed debtors were Rs.11,378,834 out of the debtor balance of Rs.16,027,297 as on 31 December 2018 of Polgahawela factory.. out of that balance, Rs. 3,248,760 that is 28 percent had exceeded 13 years.. Also, the total transport debtors amounting to Rs.4,648,233 had exceeded 13 years but the balance had not been recovered by the end of the year under review.	Settlement of these debtor balances will be done gradually in the coming months. This arrears amount has accrued due to the time difference between the issue of fodder and the receipt of details of their charges. And the old balances of this balance will be written off in the future.	Action should be taken to take proper action to recover the due debtor balances

1.6.2 **Accounts payables**

	Audit Observation	Comments of Management	Recommendation
(a)	As of December 31, 2018, a debt of Rs. 2,108,063 owed to the National Milk Board since 1998 remained unpaid.	These balances have been brought to the attention of the Audit Committee and after receiving the relevant recommendations, they will be implemented.	Action should be taken to settle the outstanding debt.
(b)	The old balances of Rs.56,203,918 belonging to the head office under accounts payable in the financial statement had not been settled.	These old balances have already been submitted to the audit committee and in the future, they will be written off from the books with the relevant approvals.	Action should be taken to settle old debt balances.
(c)	From the total trade creditor value of Rs. 261,537,239, the value of creditors was Rs. 254,842,627 for 1 to 5 years, and the value of creditors for more than 5 years was Rs. 6,694,612.	These balances have been brought to the attention of the Audit Committee and after receiving the relevant recommendations, they will be implemented.	Action should be taken to settle old debt balances.

1.7 **Non- compliance with rules, regulations and management decisions**

	Reference to laws, rules and regulations etc.	Non-compliance	Comments of Management	Recommendation
(a)	Treasury Circular No. PED/12 dated 02 June 2003	According to section 6.5.1 of the circular, the financial statements and draft annual report must be submitted to the Auditor General within 60 days after the end of the accounting year, but the financial statements of 2018 were submitted on 25 May 2021.	Comments had not been mentioned.	Action should be taken as per treasury circulars.
(b)	Inland Revenue Act No. 24 of 2019	47,778,622 rupees of income tax due for a long time and 8,425,296 rupees of related fines were not paid.		Should be act as per the Inland Revenue Act.
(c)	Circular No. 842 dated 19 December, 1978	A fixed asset register was not properly updated and maintained. Also no annual board of survey was conducted.		Should be act as per circular.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a loss of Rs.683,449,491 and the corresponding last year's loss was Rs.434,933,130. Accordingly, a decrease of Rs.248,516,361 was observed in the financial result. This decline was mainly due to the increase in selling costs, distribution costs and financial costs.

2.2 Ratio Analysis

The current assets ratio, quick assets ratio, and gross profit ratio in the year under review were 1.35, 0.67, and 0.02 respectively; while in the previous year the ratios were 1.6, 0.77, and 0.03 respectively. Accordingly, a decline in these ratios was observed and the increase in cost of sales has led to a decline in the gross profit ratio.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation ------------------------	Comments of managements --------------	Recommendation ----------------------
(a)	the financial statement of the year 2018, Rs. 6,451,500,834 in value of fixed assets, but it was observed that no physical verification of fixed assets has been done by the company.. Also, since the company does not maintain properly maintained fixed asset records, it was not possible to check the cost/existence of fixed assets, the correctness of depreciation calculations, the correctness of the balance of the cost and depreciation of fixed assets disposal, and the correctness of the additions of the year during the audit.	The company maintains a fixed asset register using Excel in which relevant additions and disposals are reconciled with depreciation allocations.	An asset register should be properly maintained by the company.
(b)	Lands located at 39 locations are controlled by the company on lease basis of 50 years, but out of those lands, information about the extent of land located at 07 locations was not submitted for auditAlso, there are no agreements for the lands located in 19 places controlled by the company and out of those lands, the information about the size of the lands located in 13 places was not submitted to the audit. The ownership of these lands has not been taken over by the company so far and it was observed that the company does not has the plans of the lands also. Moreover, buildings worth Rs. 507,345,106 were constructed in the above unassigned lands.	Details of the land and buildings in which the respective divisions of the company operate and their legal status can be obtained from the legal department.. The majority of the Rs. 507 million building cost is borne by the institution for parts and renovations They are systematically depreciated to the income and expenditure account.	Action should be taken to take over the ownership of the land to the company.
(c)	Although the Ambewela factory had paid Rs. 1,289,342 as advance payments to various institutions and individuals for purchase orders in 2017 and before, the relevant work had not been completed till the end of the year under review and the advances had not been cleared..	Necessary reminders to settle these outstanding advances have been made to the concerned officials and will be settled as soon as the relevant documents are received.	Action should be taken to settle payments to various institutions and individuals as advance as soon as possible.
(d)	In valuing the stock write-off value of the company's Digana Dairy Factory in the reviewed year, the product stock write-offs were calculated for each product at the same price for the entire yearIn	The production cost related to each product category has been used in the cut-off.	A proper policy should be formulated in valuing the value of stock write offs.

	estimating the stock write-off value of Colombo Dairy Factory during the year under review, product stock write-offs were calculated at different prices for each product.. Accordingly, it was observed that the company does not have a specific method to value the value of cut stock.		
(e)	Dated 08 April 2015. According to the decision of the Cabinet of Ministers No.AMA/15/0205/631/012, a counter-loan agreement should be entered into with the company and the Treasury for the Badalgama project, but no agreement was reached until 31 December 2021.	We have not yet received a draft loan agreement from the Treasury and the Company has informed the Treasury that it is not in a position to repay this loan..	A counter loan agreement should be entered into with the company and the Treasury.
(f)	According to the information provided by the company, it was observed that there are 78 vehicles used by the company, out of which 04 vehicles are used by the company owned by other organizations.	These vehicles are provided by the Ministry for use of the company.	The vehicles used by the company owned by other organizations should be taken over as necessary.

3.2 Operational inefficiencies

	Audit Observation	Comments of Management	Recommendation
(a)	At the beginning of the year under review, the balances of Rs. 805,860,149 are included as work-in-progress related to the dairy factory renovation project. During the year under review, it was observed that no expenses were paid for it and even at the end of the year; it was observed that the balances were not capitalized.	The projects of construction of sales shop in Gotamba and installation of cup and corner machine in Digana factory existing in these unchanging balances are currently inactive and those balances will be written off with proper approvals in the future.. Also, the Digana factory modernization project worth Rs. 790 million has already been completed and will be capitalized immediately upon receiving the relevant documents (Acceptance Certificates).	Completed work should be capitalized.

(b)	In the agreement signed with Milco Company and Desmi Constructions regarding the construction of the new Badalgama Dairy Factory, a quantity sheet was not prepared for the construction of Euro 25,215,692. Therefore, the audit observed that there is confusion regarding the accuracy of the related payments and the quality standard of the constructions while making the related construction payments.	Milco has not intervened in the selection of the relevant contractor and the related basic decisions.	A quantity sheet should be prepared for the construction.
(c)	In relation to the construction of Badalgama New Dairy Factory, during the preparation of estimates for the project of 63,935,641 Euros, money was not allocated for consultancy, which is the most basic part of a project, and due to the necessity of appointing immediate consultants for the need of consultancy during the initiation and running of the project, the consultancy services of the project had to be paid for from the local fund. Accordingly, it was observed that 5,584,365 or 69 percent of the value of Rs.8,146,736 paid from the local fund in the reviewed year was paid for consultancy.	Milco was not involved at the time of the initial paperwork for the project, and we identified a problem with not having a reasonable allocation for consulting services. As we do not have the technical knowledge related to this project and as per the identified need these consultancy services have been obtained with proper approval.	When planning the projects, Necessary counselling services also should be plan.
(d)	It was observed that due to the absence of a milk production section in the new Badalgama dairy factory, the milk production activities currently in operation at the Colombo dairy factory will stop with the removal of that factory. Accordingly, it was observed that there is a loss of that market.	The milk production machine in the Colombo factory is in a very dilapidated condition Similar machines are available in the new factory and the production activities have been carried out with that machine.	Profitable manufacturing sectors should be maintained further
(e)	The following points were observed during the inspection conducted at the Ambewela Dairy Factory as a sample audit check regarding the pricing of the products sold by the company during the year under review.		
	(i) The prices of some of the products mentioned in the price list have been changed during the year under review and due to the lack of information about the previous prices; it was not possible to	Full details of price changes from the organization can be obtained from the sales department and accounts department.	The information about the prices of the products should also be maintained correctly and the

	identify how the products were priced. (ii) The welfare price of a 400 gram packet of milk powder is Rs. 256.25 during the year, 32,514 packets of milk powder were sold at Rs.220 each and the sales value was Rs.11,786,633.	The prices of corporate welfare products are decided by the sales department with the approval of the management and can be obtained from the sales department with the relevant approval.	prices of the welfare goods should be generally done under the relevant approval.
(f)	It was observed that when valuing the inventory, the unit cost values of 20 products under 04 types of products varied from Rs.57.88 to Rs.366.07 from factory to factory as on 31st December of the reviewed year.	Even in the same product produced in each factory of the company, some cost difference can be seen and detailed documents related to this have been submitted for audit.	Unit cost value information should be maintained accurately.
(g)	Laboratory reports had been issued that 771,625 kg of milk powder produced since July 2017 was free of defects, but after receiving complaints from consumers that the milk powder released in August 2017 was unfit for human consumption, 666,075 kg of milk powder was brought back to the warehouse as of December 31, 2018. No action was taken and it was stored at the Ambewela factory.	Necessary measures have already been taken to dispose of this stock of milk powder.	The parties responsible for this should take appropriate action.
(h)	It was observed that in the closing stock of Digana Dairy Factory of the reviewed year, there are stocks of raw materials and packaging materials that have not been released since 5 years with a value of Rs. 13,533,994 and since these stocks cannot be used, they were overstocked at that value.	These stocks have been brought to the attention of the Audit Committee and after receiving the relevant recommendations, they will be implemented.	Necessary actions should be taken to unusable stocks of packaging material.
(i)	It was observed that there were unissued engineering stocks worth Rs.1, 043,529 in the closing stock of Polonnaruwa Dairy Factory in the year under review.	These stocks have been brought to the attention of the Audit Committee and after receiving the relevant recommendations, they will be implemented.	Necessary action should be taken for unusable stock.

(j)	The stock write-offs in the year under review in the Colombo factory is Rs. 5,132,845 and in the sample inspection, the unit prices used to calculate the stock values of each of the products mentioned under it have changed and the price changes have shown an abnormal situation ranging from 47% to 1223%. It was observed that	Due to an error in the software used for the accounting work of the company's Colombo dairy factory, the written down values of stocks made in the laboratory have been done at different prices. The relevant errors were discovered after the financial statements were provided for audit and the errors have now been corrected.	Unit prices used to calculate stock values should be taken correctly.
(k)	During the year under review, the company's traveling expenses, sales commission and storage expenses had increased by 59 percent, 1049 percent and 325 percent respectively, but it was observed that the sales had increased by 14 percent. Moreover, compared to the previous year, the purchase of milk in the conversion year decreased by 1 per cent, but the development cost increased by 18 per cent, bowser cost by 31 percent, diesel cost by 32 percent, water cost by 40 percent, and transportation cost by 242 percent	This increase in costs is due to the increase in milk collection and production capacity of the company. Although the rate of increase in expenses is high, the related expenses are very low when considered as a ratio of sales, and as a result, a proportional change in sales and related expenses cannot be expected.	Relevant costs which are related to sales, should be managed.

3.3 Procurement Management

	Audit Observation	Comments of Management	Recommendation
(a)	The contract for the construction of the Badalgama Dairy Factory was awarded to a foreign construction company outside of the government's procurement guidelines. This project has been implemented as an unsolicited project and under the relevant Procurement Guidelines Supplement 23, it is stated that only projects where contractors with special technical knowledge cannot be found can be implemented as an unsolicited project. But building such a factory is likely to find a contractor through international bidding. Accordingly, it was not	Milco Company did not directly intervene in the procurement process related to the Badalgama project and after completing the procurement process and selecting the supplier, the company was involved in the project. As a result, the organization is not in a position to comment on the existing problems in this	Should be act according to the Procurement guidelines

	confirmed whether the construction cost estimate of 25,215,692 Euros was done at the correct cost and in the best condition.	procurement process.	
(b)	For creating a management information system for dairy factories and checking bills related to the construction of Badalgama Dairy Factory, Rs. 1,874,345 was paid to a foreign supplier during the year under review. But it was observed that the selection of the supplier for the relevant work was not done according to the government's procurement guidelines.	This accounting system has been used for many years in the Colombo Dairy Factory for accounting and invoicing and an update and installation of this software in other factories has been done during the year. As the update has to be done from the respective service providers, no price calculation has been done.	Selection of suppliers Should be done according to Code of Government Procurement Guidelines.