

**1. Opinion**

**1.1 Qualified Opinion**

The audit of the financial statements of the Mahaweli Livestock and Agro Enterprises (Private) Limited Company for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of compressive income, 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 Constitution of the Democratic Socialist Republic of Sri Lanka in conjunction with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Entities.

**1.2 Basis for Qualified Opinion**

My opinion is Qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka *Auditing Standards* (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements Section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

**1.3 Responsibilities of Management and Those Charged 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 for Small and Medium Sized entities Accounting Standards and for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement, 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 Sub-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 Institute.

#### **1.4 Auditor's responsibility for financial statements**

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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 a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement 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 skepticism 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 statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are 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 resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 **Financial Statement**

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### 1.5.1 **Accounting Deficiencies**

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) The company has added the revaluation profit of Rs.4,007,643 to the profit before tax when calculating the profit before tax, as a result profit before tax had been overstated that amount.	Kindly inform that the final accounts for the year 2020 will be corrected.	Financial Statements must be properly prepared.
(b) Capital biological stocks Rs.9,210,590 at end of the year had been included calculation cost of sales, as a result Gross Profit had been overstated that amount.	Kindly inform that the final accounts for the year 2020 will be corrected.	Financial Statements must be properly prepared.

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| (c) | The trade and other payable for the year to be shown under working capital changes in the cash flow statements Rs.2,495 should be expressed as a cash inflow Rs.2,506,495 as shown cash out flow. | Kindly inform that the final accounts for the year 2020 will be corrected.   | Steps must be taken to correct the cash flow statement. |
| (d) | Building depreciation in respect of two farms had been overstated Rs.238,750 in the financial statements.   | Inform that the over – calculation of building depreciation will be corrected in the final accounts for the year 2020. | Financial Statements must be properly prepared.         |

**1.5.2 Non – Compliances with Sri Lanka Accounting Standards For Small and Medium Sized Entities**

<b>Non Compliances to Reference to Relevant Standards</b>	<b>Response of the Management</b>	<b>Auditor’s Recommendation</b>
(a) Although the face of the cash flow statement the stock changes should be presented separately, in terms of 7.4(a) of the Sri Lanka Accounting standards for small and medium-sized Enterprises separately in the cash flow statements, the stock changes of Rs. 1,853,393 was not specified in the cash flow statement.	Inform that the stock change in the year 2020 will be shown separately in the cash flow statement.	Action should be taken to prepare the cash flow statement according to the standard.
(b) According to the payment of Rs. 422,995 which should be considered as cash outflow in the cash flow statement, chapter 7.4 (d) of accounting standards for small and medium-sized entities had not been included in the cash flow statement.	Inform that the final accounts for the year 2020 will be corrected.	Action should be taken to prepare the cash flow statement according to the standard.

### 1.5.3 Suspense Accounts

Item	Value	Period of Suspense	Response of the Management	Recommendation
	Rs.			
The Suspense Account balance under the Debtors financial statements since year 2015 had not been settled during the year under review.	13,010,825	4 years	Inform that this suspense account will be settled in the 2020	Action should be taken to settled the suspense account promptly.

### 1.5.4 Lack of written evidence for audit

Item	Value	Evidence not made available	Response of the Management	Recommendation
(a) General Reserve				
----- Mahaweli Economic Agency	403,962,731	Evidences relating to confirming the value.	The company has no any evidence relevant to these values.	Arrangements should be made to obtain the balance verification audit for directly.
Kothmale Dairy Development Funds	2,900,000			
European Economic Commission Capital Grants	3,583,706	Documents relating to accounted as Capital Grants	These balances were also carried forward when the livestock sector was transformed into a company in the year 2020.	Arrangements should be made to obtain the balance verification audit for directly.
Foreign Aids	5,729,782			

(b) Payable National Building Tax	285,185	} Balance Confirmation and Tax Certification.	Inform that action will be taken to obtain confirmation letters in the next year.	Arrangements should be made to obtain the balance verification audit for directly.
Payable value added Tax	2,991,095			
(c) Payable to the Department of Animal Production and Health Advances	165,600	} Balance Confirmation	As it is not possible to obtain the balance confirmation letters payable to the Animal Production and Ministry of Health, inform you that will take action to the write off to obtain the approval of the Board of Directors in the year 2020.	Arrangements should be made to obtain the balance verification audit for directly.
Damminna Inter – Farm Balances	163,192			
	818,177			
			Inform that these balance will be confirmed in the year 2020	
			Inform that Damminna Farm Balance will be corrected in the year 2020.	

## 1.6 Accounts Receivable and payable

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### 1.6.1 Receivables

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#### Audit Issue

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The livestock value at Rs.5,820,430 of the Nirawiya Farm had transferred to the Ministry of Irrigation and Water Resources Management in the year 2010 had not been recovered at the end of the year under review.

#### Response of the Management

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Requests have been made in this regard and inform that action will be taken to recover this balance by the year 2020.

#### Recommendation

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Action should be taken to recover the receivable balance promptly.

## 1.6.2 Payables

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<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Recommendation</b>
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(a) According to the salary revision in year 2015 although the provisions had made for arrears salary of RS. 6,893,711 and contribution to Employee's Provident Fund and Employee's Trust Fund amounting to RS. 1,817,553 it had not been paid until as at end of the year under review.	Inform you that these provisions will be paid after the commencement of the state Private Partnership.	Steps should be taken to pay the payable balance immediately.
(b) It was observed that the company may have to pay surcharges in the future due to non – payment of contribution from 2013 to 2019 amounting to Employees Provided Fund and Employees Trust Fund Rs.15,047,670 and Rs.505,026 respectively.	Inform that action will be taken to settle, after the start of the Public Private Partnership.	Steps should be taken to pay the payable balance immediately.

## 02. Financial Review

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The operating result of the year under review amounted to loss of Rs.4,663,531, and the corresponding loss in the preceding year amounting to Rs.4,428,901. Therefore a deterioration amounting to Rs.234,630 of the financial result was observed. The reason for the deterioration is no restructure business activities of the Company.

## 03. Operating Review

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### 3.1 Operation Inefficiencies

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<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Recommendation</b>
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(a) Even though 12 main objectives had been indicated in the Memorandum of Association of the company, the objective of caring on the cultivations in company's farms, poultry farming for sale at wholesale and retail, manufacture of poultry feed and supply to farmers, breeding, selling, improving,	To achieve these objectives, action has been taken to launch a public private partnership.	Necessary action should be taken to achieve the objectives set out in the Memorandum of Association.

processing and exporting of animals such as cattle, pigs, poultry etc. caring on business activities associated with fruits and cereals had not been achieved and only the buffaloes, mulch cows, poultry pigs and goat husbandry on a small scale and activities of dairy products were being functioned.

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| <p>(b) When comparing the target production with the actual production had implemented under livestock unit as at end of the year under review had been decreased the production as broiler chicken by 22 percent pork production by 10 percent, goad husbandry by 24 percent, on a small scale and activities of dairy products were being functioned.</p>  | <p>This situation has arisen due to the lack of cold storage facilities for the products and the dilapidated condition of the animal shelters. Inform that the Government will take steps to overcome this situation after the conclusion of the public and private partnership</p> | <p>Necessary action should be taken to achieve the target production.</p>                          |
| <p>(c) Although 04 vehicles amounting to Rs. 3,162,812 own by the Sri Lanka Mahaweli Authority and Lands of head office of the company is located in Dematagoda area own by the Mahaweli Authority currently use by the company it had shown as Rs.14,929,159 under fixed assets in the Financial Statements of the company, no action has been taken to acquire those assets.</p>   | <p>Inform that action will be transfer these vehicle in the year 2020. Inform that action will taken to transfer the value of the Land Dematagoda to Mahaweli Authority of Sri Lanka in the year 2020.</p>  | <p>Action should be taken to transfer ownership of the used vehicle to the company.</p>            |
| <p>(d) The diary Productions are being made from machineries were used since year 1986 Which diary Processes were commenced had established in the Giradurukotte Farm. Sanitation Problems had arisen such as due to floor tiles had broken owing to old condition of the factory buildings, weak condition of the roof and leak ago of water into the factory, malfunction of the drainage system and weakness in the internal cleaning system.</p> | <p>Inform that the Government will take action to resolve this situation after the completion of Public and private partnership.</p>  | <p>Steps should be taken to correct the sanitation problems which arise during the production.</p> |
| <p>(e) Constructions including cattle sheds and goat sheds and goods by spending a sum of Rs. 12,501,900 in the years 2014 and 2015 by</p>   | <p>Although the company does not have the ability of the capital</p>  | <p>Method logiest should be developed to utilize</p>   |



system “c” of the Mahaweli Authority had been valued at Rs. 8,967,600 and vested to this company on 8 February 2016 with a view to converting the Giradurukotte Farm belonging to the company in to an animal husbandry Training contravene though these constructions which had been carried out for achieving an objective of another party, had been vested to the company, that asset had remained the since the date of vested due to a specific plan or methodology in make use of these contracting were not available with the company.

capacity to purchase these constructions. animal to use these assests inform that the assets are being used properly after the established the public and private partnership.

- (f) During the assists verification in 2016, it was recommended to disposed the waste items value of Rs.859,256 had not been disposed of the end of the year under review and the waste materials had been revaluation and accounted for during the year under review.

Inform that these Action should be disposable items will be taken to dispose of disposed and completed the waste material. by the year 2020.