

**1. Financial Statements**

**1.1 Disclaimer of Opinion**

The audit of the financial statements of the Mahaweli Livestock Enterprises Limited for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 and the statement of profit or loss and the statement of other comprehensive 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 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 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 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 Audit observations related to the preparation of financial statements**

### **1.5.1 Non-compliance with Sri Lanka Accounting Standards**

<b>Non-compliance with reference to relevant standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) According to Section 97 of Sri Lanka Accounting Standards 1, when items of income or expenses are quantifiable, an entity must present their nature and amount separately, but the profit made by the company from the sale of a vehicle of Rs.1,793,689 was included in the financial income.	It is a typographical error and I will correct it and submit the financial statements in the next accounting year	When items of income or expenditure are material, their nature and amount should be presented separately.
(b) In accordance with paragraphs 15 and 16 of Sri Lanka Accounting Standards No. 12, the company should have recognized the deferred tax assets or liabilities for the year under review and adjust them to the financial statements, taking into account the temporary chargeable tax changes, but had not acted accordingly.	I will work to adjust the financial statements of the coming year.	Deferred tax assets or liabilities should be identified and recorded to the financial statements
(c) In accordance with paragraph 26 (a) of Sri Lanka Accounting Standards No. 24, disclosures should be made in relation to other entities when the relevant entity has control, group control or an associated company. Transactions were not dealt with accordingly	National Livestock Development Board owns 27% of our company. The chairman of the National Livestock Development Board is also the chairman of our company and our company has been incorporated according to the Companies Act No. 07 of 2007. Accordingly, our company operates according to the circulars of the National Livestock Development Board.	Disclosures should be made regarding transactions with the Livestock Development Board.

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| <p>(d) Although the company has recognized Rs. 232,639 as coconut, mango and dragon fruit sales income in the financial statements, according to paragraphs 5 (a), (b), (c) and 4 of Sri Lanka Accounting Standards 41, the coconut trees that are the basis for generating that income And the cost of dragon fruit trees Rs.632,402 was recognized as bearer biological assets and should be measured according to Sri Lanka Accounting Standards 16, but because it was accounted as closing stock in the financial statements, the year's depreciation was under-accounted for.</p> | <p>I hope to present it in future financial statements.</p>                   | <p>Biological assets should be presented as a separate item in the financial statement.</p> |
| <p>(e) According to paragraph 5.5.15 of Sri Lanka Financial Reporting Standards 09, the expected credit loss method should be used for subsequent measurements of the trade receivables balance of Rs.2,829,960. Due to failure to do so, the balance of trade and other receivables in the year under review was over or under calculated.</p>   | <p>I will follow the expected loss method for the coming accounting years</p> | <p>Trade receivables should be valued using the expected credit loss method</p>             |

## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>(a) According to the company's financial statements of the year prior to the year under review, the balances of the items of property, plant and equipment, deferred tax liability and retirement gratuity liability, when presented as the opening balances of the financial statements of the year under review, respectively, are Rs. 21,096, Rs. 205,259 more and Rs. 184,163 less had changed from the previous year's closing balances, so the closing balances had been over-or under-calculated from those values.</p>	<p>In Property Plant and Equipment, excess depreciation on office furniture has been done in 2018/2019 and has been corrected. Deferred tax liability was prepared by the then Accounts Officer and there is no documentation for the methodology used to calculate it.</p>	<p>The opening balances of the previous year should be presented correctly.</p>

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| (b) | According to Note No. 03 - Property, Plant and Equipment included in the company's financial statements of the reviewed year, a difference of Rs.982,267 was observed between the accumulated depreciation value of the assets such as machines and machinery, motor vehicles, office furniture and the trial balance at the end of the reviewed year.   | According to the trial balance, the balances of the accumulated depreciation of the specified assets have not included the depreciation expenses related to the year 2019/2020. It is accounted for in the preparation of final accounts as a journal entry | Accumulated depreciation of assets should be properly included in the financial statements.     |
| (c) | Fixed Deposit interest income as per financial statements Rs. 2,096,936, but as per the calculations made as per the renewal notices, the interest income was Rs. 1,978,842 out of A difference of Rs 118,094 was observed.  | An attachment is provided   | Interest income on fixed deposits should be correctly identified and accounted for              |
| (d) | The nation building tax amounting to Rs 3,711,068 shown as a negative balance under trade and other payables was carried forward for a long time and was not written off as an expense.  | Our company does not have the relevant documents related to those balances. I will cooperate with the decisions taken during the dissolution of our company in the future.  | Arrangements should be made to settle the balance that has been going on for a long time.       |
| (e) | For economic service charges for the assessment years 2017/2018 and 2018/2019 respectively Rs. 99,511 and a fine of Rs.73,426 was asked to be paid by the inland revenue department, but this fine was not accounted for.  | I will answer about that in the future  | Economic service charge penalties should be accounted for                                       |
| (f) | Kalankuttia Farm Land for nine years from 2010 to 2018 including surcharges of Rs. 10,485,000 has not been paid, even though the Mahaweli Authority's Residential Business Manager (Zone H) has informed through the letter numbered RPM/T/L/CLO/Gal/74 dated 10 October 2017 that the tax lien will be canceled, but the payment of the tax or allocations for it had not been dealt with. And no agreement was signed for the leased property. | Tax payments are not made for Kalangkuttiya farms and main farms. As a result, tax payments or surcharge payments cannot be made, so the problem has been directed to be resolved by the upper management.  | A lease agreement for the farm land must be signed and the lease paid or allocation made for it |

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| (g) | Although there are mixed foods worth Rs. 124,946 and other stocks worth Rs. 141,337 in the financial statements since 2016, since it has not been confirmed that the goods are physically available as of 31 March 2020. The closing stock balance had been overestimated. | The value of that stock is a value that keeps coming. I will try to correct it in future accounts.   | Mixed feed and other stocks should be investigated and corrected.                                      |
| (h) | According to the annual Board of survey reports, the value of the general stock items of the company as of 31 March 2020 is Rs. 4,893,651 and according to the financial statements, the value was Rs. 5,710,081. The difference of Rs 816,430 were observed.              | The difference between the value of that average stock and the value of the stock verification report is a continuing difference.  | General inventory changes should be monitored and corrected.   |
| (i) | In the financial statements, 10 stock items amounting to Rs.27,069,421 were not included in the Annual board of Survey Report, so the stock was over-calculated.   | These balances are the initial stock balances that continue to exist. I will present those balances to the board of directors and work to correct them in the future according to those decisions. | According to the Board survey reports, stock should be checked and correct adjustments should be made. |

### 1.5.3 Documentary evidence not made available for audit

<b>Audit Observation</b>	<b>Comments of the management</b>	<b>Recommendation</b>
(a) According to Note No. 03 - Property, Plant and Equipment included in the financial statements of the company for the year under review, the balance at the end of the year under review is Rs. 20,423,902 but since no fixed asset register of the company has been maintained, the date of purchase, existence and correctness of each asset could not be revealed and thus it was not possible to identify the assets that were fully depreciated as on 31March, 2020.	It is not possible to maintain a fixed asset register. I will submit it to the board of directors in the future and with the approval, I will prepare the audit and prepare an asset register.	A fixed asset register should be maintained
(b).Rs 424,459 was accounted for the work being done during the year under review, but the scope of the audit was limited due to the fact that no related details were submitted to the audit.	I submit an attachment related to it	work in progress An annexure containing the relevant details should be submitted to the audit promptly.

- (C) The 06 balances with a value of Rs.31,541,350 included in the trade payables of Rs.78,684,148 were balances that have existed for more than a year and since no age analysis or schedule related to those balances was submitted to the audit, the audit could not confirm its existence and correctness.
- These payable balances keep coming up as Quick Book opening balances. Our company does not have any documents related to those balances. However, I will cooperate with the decisions taken during the dissolution of the company in the future.
- Age analysis of trade payables, nature of transactions should be submitted for audit.
- (d) In the year under review Rs. 45,434 an unrecognized debit balance and From previous years Rs. 15,497,840 worth of outstanding credit balances of Rs.15,452,405 which had not been settled The information about how the balance was formed was also not submitted to the audit.
- The credit balances in the suspense account of Rs 15,497,840 are the opening balances in the Quick Book system. We do not have any documentation to correct it. I will cooperate with the decisions taken during the dissolution of our company in the future.
- Information about how the uncertain credit balance was created should be submitted to the audit and efforts should be made to settle the balance.
- (e) Rs. 27,280,638 worth of income tax, Rs 25,607 worth of value added tax, detailed schedules, remittances and tax returns were not submitted to the audit.
- I will cooperate with the decisions taken during the dissolution of the company.
- Detailed schedules, remittance slips and tax returns for VAT payable should be submitted for audit.
- (f) As on 31 March , 2020, the balance of the loan obtained from the Livestock Development Board was stated as Rs.995,230 in the financial statement, but it was not included in the balance due in the financial statement of the Livestock Development Board. The reasons for this were not investigated and settled and no other acceptable evidence was presented to the audit to confirm the balance of the loan.
- Our company does not have any documents related to those balances. In the future, I will cooperate with the decisions taken during the dissolution of our company
- Arrangements should be made to verify the loan balance obtained.
- (g) For the savings Account balance of Rs.49,389 as of 31 March 2020 at peoples Bank , the balance verification letter was not submitted for audit, so it was not possible to verify the correctness of that balance.
- The bank stated that it could not provide details about those accounts. As the reason, Dematagoda Bank stated that in order to provide that information, a letter should be handed over with the signatures of the persons who signed in relation to the accounts in 2017.
- Documents to verify savings balance should be submitted for audit

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| (h) According to the financial statements, the calculation schedule for provision for doubtful debt amounting to Rs.10,630,937 was not submitted for audit.   | Our company does not have any documents related to that. Since the organization is being dissolved in the future, I will work according to the decisions made there regarding those balances. | Accounts payable for trade and other receivables should be submitted for audit.  |
| (i) To verify the employee benefit obligation value of Rs.8,520,354 included in the financial statements, neither an employee benefit obligation calculation report nor a valuation report was submitted to the audit, so its accuracy could not be verified.   | It is expected to prepare and submit a correct document about the employee benefits.  | Submit an employee benefit liability calculation report or Actuarial valuation report should do  |
| (j) Deferred tax assets amounting to Rs.881,572 and deferred tax liabilities amounting to Rs.3,470,646, which was the opening balance, were not submitted to the audit, so the correctness could not be confirmed.  | I will look into the calculation and provide answers in the future.   | Deferred tax asset and liability calculation documents for opening balances should be submitted to the audit   |
| (k) According to note No. 03 - property, plant and equipment included in the financial statements of the company for the year under review, Rs. 6,802,728 worth of machinery and equipment was acquired during the year under review and the cost was Rs. 1,120,000 motor vehicles Rs. 1,793,689 had been disposed of during the year under review but the scope of the audit was limited as no procurement files and other details related to the respective acquisitions and disposals were submitted to the audit. | The related files are attached herewith   | Requested files should be submitted to audit and procurement files and other details related to acquisitions and disposals should be submitted to audit. |



## 1.6 Accounts Receivable and Accounts Payable

### 1.6.1 Accounts Receivable

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) According to the schedule submitted to the audit, out of the trade debtor balance of Rs.2,796,420, Rs.2,080,910 i.e. 74 percent are debtor balances that have exceeded 90 days according to the debtor period analysis and the collection of those balances was uncertain.	Although our company sent letters from time to time regarding the receivable balances, we have not received any response. Since the organization will be dissolved in the future, I will work according to the decisions taken there.	Arrangements should be made to collect the due balances promptly.
(b) The balance of Rs.33,029,696 included in the other receivable balance of Rs.64,693,611 i.e. 51 percent is the balance from before the year 2016 and at the end of the year under review, the settlement was not done and the recovery of this balance was uncertain.	The company does not have the files in respect of these debtors. Therefore, it is impossible to confirm it. I will cooperate with the decisions taken during the future dissolution of the company.	Arrangements should be made to settle the balances due.

### 1.6.2 Accounts Payable

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Company's Financial Statement Note No. 14.1 Under Trade and Other Payables Rs. 1,162,899 to the accrued remuneration balance, the company's stamp duty balance of Rs. 3,025 were also included.	I will try to fix it next year.	Balance of stamp duty payable should be shown separately

## 1.6 Non-compliance with laws, rules, regulations and management decisions etc

Reference to the laws, rules, regulation	Non compliance	Comments of the management	Recommendation
(a) Public Enterprises Department Circular No. PED/12 dated June 02, 2003			
(i)Section 5.1.3	15 days before the beginning of the financial year, after the approval of the Board of Directors, the cooperate plan should be submitted to the line ministry, the Department of Public Enterprise, the Treasury and the Auditor General, Even as on 31 January 2024, the date of audit, the 2019-2023 Compact Plan had not been submitted for audit.	For the 2019/2020 accounting year, no cooperate plan was prepared and although our institution is a semi-public institution, work was being carried out as a single company without any government support. I will prepare and present the cooperate plan in the future.	To be submitted as per circular.
(ii) Section 5.2.4	Although the draft budget should be submitted to the board of directors for approval three months before the start of the financial year, the budget document for the year 2019/2020 was not approved by the board of directors until 31 January 2024, the audit date.	A draft budget was not prepared for it in the 2019/2020 accounting year and I will work to prepare it in the coming years.	According to the circular, the draft budget should be submitted to the Board of Directors for approval.
(iii) Section 5.2.5	The Board of Directors should have approved the budget and submitted it to the line ministry, Department of Public Affairs, Treasury and Auditor General within 15 days of the commencement of the relevant financial year, but this was not done.	A draft budget was not prepared for it in the 2019/2020 accounting year and I will work to prepare it in the coming years.	According to the circular, the budget should be approved by the Board of Directors and submitted to the Auditor General.

(iv) Section 6.5.1	Although annual accounts should be submitted to the Auditor General within 60 days of the end of the accounting year, the financial statements for the year 2019/20 were submitted to the Auditor General on 05 December 2023 and a delay of 42 months was observed.	Since our company did not have a board of directors at that time, we failed to submit the reports to the Auditor General due to lack of approval from the board of directors.	Draft annual reports and annual accounts should be submitted to the Auditor General as per the circular.
(b) Public Finance Circular No. 01/2014 dated 17February 2014 Section 5(ii)	Based on the project plan, an action plan should be prepared for the next financial year i.e. from 01 April 2019 to 31 March 2020, but the action plan was not prepared and submitted for audit.	There was no project action plan and I will prepare and submit an action plan in the future.	An action plan should be prepared for the financial years including the matters to be covered
(c) Government Procurement Guidelines Section 4.2.1	The company should prepare the master procurement plan for a period of at least three years and then prepare the procurement activities for the coming year in detail. However, the company has not prepared a procurement plan for the year 2020.	The main procurement plan was not prepared and I will prepare and submit the procurement plan in the future.	The procurement plan should be prepared for a period of at least three years

## 2. Financial review

### 2.1 Financial Results

The pre-tax operating result of the year under review was a loss of Rs.29,177,604 and correspondingly the loss of the previous year was Rs.8,567,433. Accordingly, a deterioration of Rs 20,610,171 was observed in the financial result. This was mainly due to a significant decline in sales revenue by 25 percent compared to the previous year.

## 2.2 Ratio analysis

Due to the negative value of the net assets of the company, it was observed that it was not possible to cover the total liabilities by substituting the total assets of the company. Current assets ratio, quick ratio, gross profit ratio were 0.78, 0.55 and negative 7 percent respectively in the year under review and the same ratios were 1.01, 0.74 and 11 percent respectively in the previous year. Accordingly, a decline in these ratios was observed and it was observed that the current assets ratio, the quick ratio is at a weak level, so it is facing a working capital problem. And the gross profit ratio was negative due to the decrease in sales revenue.

## 3 Operational reviews

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The Hurugaswewa farm land owned by the Mahaweli Authority had not been taken over by the Mahaweli Livestock Development Company and there was no lease agreement for it. The area of this land has not been identified with certainty so far and the area of idle land has also not been identified with certainty.	Since Mahaweli Authority owns 45% of the shares of this company and since this company was established and operated under Mahaweli Authority, 2 buildings in Hurigaswewa Mahaweli owned by Mahaweli Authority were given for use at that time. Our company's animal feed was processed in this one building. But in no case it was assigned to our company and its land was not specifically given or assigned to us in writing.	The area of the land should be identified precisely and arrangements should be made to enter into a lease agreement and take over.
(b) 26-acre farm land where the office of Mahaweli Livestock Development Company was located in Anuradhapura Tambuttegama belongs to Mahaweli Authority and a thirty-year lease agreement was entered into regarding that land on 3 <sup>rd</sup> October, 1989. According to its terms, the tax period had ended on 2 <sup>nd</sup> tober 02, 2019. Further, no action has been taken to update the covenants relating to this land, which has a total value of 31,099 square feet of buildings and 46,924 square feet of structures under construction (no value).	This lease expired in 2019. Letters were sent to the Mahaweli Authority in this regard before the end of that tax period. At present, the transfer of our company to the National Livestock Development Board is in progress	Actions should be taken to update the lease agreement relating to the land.

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| <p>(c) According to the observation of the Minister of Finance in the letter No. BD/RDS/124/CM/07 dated 08 July 2015 related to the decision of the Council of Ministers dated 16 July 2015 No. AMPA/15/0940/631/018-I, the operational efficiency of the company under the relevant legal procedures For confirmation, all the resources, assets, shares and management should be obtained by the National Livestock Development Board and in the year 2017, the board had only 27 percent of the company's share ownership. However, until now, the acquisition activities have not been started as per the decision of the Cabinet</p> | <p>As of now, the takeover is in progress.</p> | <p>According to the Cabinet decision, all resources, assets, shares and management should be transferred to the National Livestock Development Board.</p> |
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### 3.2 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>(a) 5 lorries belonging to the Mahaweli livestock Development Company were given to a company belonging to the Mahaweli Authority for use, but the vehicles were not taken back until 31 January 2024.</p>	<p>These 05 lorries, which were under the authority of Mahaweli, are under the Ministry of Agriculture and at present, the transfer of these 05 lorries to the National Livestock Development Board is underway.</p>	<p>Arrangements should be made to transfer the ownership of lorries properly.</p>
<p>(c) The total income of the company had decreased by Rs.43,133,651 in the year under review compared to the year 2018/19, and for this, the two main types of income of the company, the broiler project and the breeding project, decreased by Rs.10,455,940 and Rs.32,888,037 respectively. was affected. This was mainly due to the fall in the price of chicken meat and the significant reduction in the prices of chicks.</p>	<p>Compared to 2018/2019, 2019/2020 chicken sales price and chicken meat prices dropped significantly, mainly due to the Easter attack and the Covid epidemic situation.</p>	<p>The reasons for not achieving the expected poultry sales income should be investigated and necessary measures should be taken.</p>

(c) As on 31 March 2020, the declared capital of the company was Rs.22,965,030, but the value of net assets was Rs.28,305,403. According to paragraph 220 of the Companies Act No. 07 of 2007, the net asset of the company is less than half of the stated capital and accordingly the company has a severe capital loss situation. Thus it was observed that there is uncertainty about the continued existence of the company.

As on 31 March , 2020, the value of the net assets of the company remains negative. The reason for this is that our company's sales revenue has decreased significantly in relation to this accounting year, resulting in a gross loss and an excessive increase in expenses. And competitive market is a major influencing factor where chick price and chicken meat price determine the efficient market.

The reasons why the company did not reach the total revenue expected to be earned should be investigated and necessary measures should be taken immediately.