Milco Private Limited - 2021

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1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Milco Private Limited ("Company") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 responsibility is to issue an auditor's report on the financial statements of the Company based on an audit conducted in accordance with Sri Lanka Auditing Standards. However, for the reasons described in the Basis for Disclaimer of Opinion section, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Audit observations regarding the preparation of 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)	In accordance with paragraph 32 of Sri Lanka Accounting Standard No.01, assets, liabilities, income, and expenses should not be offset in the financial statements except in cases permitted by the standard. The following observations are made in this regard.		
(i)	During the year under review, a net trade creditor balance of Rs.349,759,934 was shown in the financial statements, after offsetting the debit balance of Rs.18, 297,619 to the trade creditors' account.	The company's current balance sheets contain a large number of balances that have remained unchanged for over 5 years, some of which have no source documents, while others are ongoing balances based on accounting errors. The institution's Audit Committee has obtained approval for the write-off of these balances, and after obtaining the approval of the Board of Directors, it will then proceed with the write-off of these balances.	Actions should be taken according to the standard.
(ii)	During the year under review, a total of Rs.112,725,177 was offset against other creditors, accrued payments, amounts payable to government institutions, and balances payable to other parties, and therefore the above balances were understated by that amount.	Although the debit balance of Rs.52 million shown under creditors in the management accounts, it is shown in the asset note as "ESC Receivable" under tax assets in the final accounts. Other non-moving balances will be written off in the future.	Actions should be taken according to the standard.
(iii)	During the year under review, a net debtor balance of Rs.210,678,419 was shown in the financial statements after offsetting the credit balance of Rs.3,934,393 to the debtor account.	These credit balances are due to the fact that certain invoices have been deleted from the computer system due to a cyber-attack. That balance will decrease further in the coming years.	Actions should be taken according to the standard.
(iv)	Due to the offset of a credit balance of Rs.33,387,747 against the balance of Rs.47,007,961 owed by the distributors, the balance owed by the distributors had been understated by that amount.	The amount of Rs.33,387,747 credited from the debtors' balance includes the amount of Rs.33,323,444 received from the head office in relation to the milk distribution program to schools and the amount of overpayment of other debtors.	Actions should be taken according to the standard.

(b)	As per paragraph 5.5.15 of Sri Lanka Financial Reporting Standards 09, the expected credit loss method should be used to measure subsequent impairment losses for the trade receivables balance of Rs.563,411,473 and it was observed that trade and other receivables in the year under review were overstated or understated due to failure to do so.	The company currently makes it mandatory to provide bank guarantees when hiring trade debtors/distributors, and any outstanding balances are recovered from the bank guarantee. Accordingly, no impairment adjustment is made as there is no uncertainty regarding the non-collection of debts from trade debtors.	Actions should be taken according to the standard.
(c)	Although the useful lives of assets in use should be reviewed annually and an estimated useful life should be estimated and accounted for as a change in estimates in the accounts as per paragraphs 50 and 51 of Sri Lanka Accounting Standards 16, the company had not reviewed and disclosed the useful lives of 7,131 fully depreciated fixed assets worth Rs.596,279,628, although they were in use.	It is expected that a full asset verification and revaluation of the institution will be carried out in the future and relevant adjustments will be made accordingly.	Actions should be taken according to the standard.
(d)	Although in accordance with Sri Lanka Accounting Standards No. 21, the value should be converted at the relevant foreign exchange rate on the date of payment, the value of the Euro 525,070.28 spent during the year under review for the construction of the new Badalgama dairy factory and the import of machinery and spare parts was Rs.113, 502,752, but as per Note No. 3 of the Company's financial statements, Rs.116, 280,515 had been accounted for, thus Rs.2, 777,763 had been over-accounted.	We have identified that this project has not been accounted for in full compliance with Accounting Standard 21 due to the complexity of the transactions in the relevant construction contract and the use of the Treasury's "Disbursement Schedule" to account for those transactions, but we have accounted for this in this manner to minimize the impact on these balances due to that non-compliance.	Actions should be taken according to the standard.

1.5.2 Accounting deficiencies

	Audit Observation	Comments of the management	Recommendation
(a)	As at 31 December 2021, the company had total assets of Rs.21, 451,693,754, total liabilities of Rs.20, 436,070,475, and an equity balance of Rs. 1,015,623,279. When submitting the financial statements for audit, only the relevant ledger accounts, schedules, journals, and financial statements prepared for each factory were submitted, and a Trial Balance had not been submitted.	Will be provided in the future.	One Trial Balance should be submitted for the factories and head office.

(b)	According to Note 02 of the Company's Statement of Financial Position, the depreciation amount for the year under review was Rs.517,715,524, but in the Company's final financial statement, the factory depreciation was shown as Rs.458,316,520 under cost of sales and Rs.38,629,545 under administrative and development costs, resulting in a total depreciation of Rs.496,946,065,and a difference of Rs.20,769,459 when recording depreciation for the year.	No answer has been given.	Depreciation for the year should be accounted for correctly.
(c)	The opening balance of the company's motor vehicles in the year under review was Rs.147,942,408, but since the closing balance of the motor vehicles in Note No. 02 of the previous year's financial statements was Rs.151,142,408, the balance of the motor vehicles in the financial statements of the year under review was understated by Rs.3,200,000. Furthermore, while recording the accumulated depreciation of motor vehicles, the closing balance of the previous year was Rs.159, 593,667, but the opening accumulated balance in the financial statements of the year under review was shown as Rs.156,393,667, resulting in an understatement of Rs.3,196,000.	In response to the audit report for the year 2020, it was revealed that the opening balance of the cost of motor vehicles in the company's statement of financial position was overstated by Rs.3,200,000 and the opening balance of accumulated depreciation was overstated by Rs.3,196,000, and this has been corrected in the property, plant and equipment statement for the year 2021.	The opening balance must be recorded accurately.
(d)	While there was a negative balance of Rs.8,451,259 as the opening net balance of the year under review in respect of motor vehicles, a negative balance of Rs.21,195,179 was shown as the closing net balance of the year, and Rs.2,431,269 was recorded as depreciation for the year under review.	This is an accounting error and agrees to re-adjust the amount.	Depreciation for the year must be accounted for correctly.
(e)	During the year under review, motor vehicles costing Rs.11,000,160, weapons and equipment costing Rs.20,614 and office equipment costing Rs.28,000 were disposed of and the accuracy of the relevant values could not be verified as the written evidence relating to the disposals was not submitted for audit.	Written evidence for the removal of office equipment worth Rs.28,000 and written evidence for the removal of weapons and equipment worth Rs.20,614 are already available in the documents submitted for audit by the Ambewela Dairy Factory.	Written evidence related to asset disposals should be submitted to the audit.

(f)	In Note 03 under Non-Current Assets of the Company's Statement of Financial Position, the opening balance of the Polonnaruwa Dairy Factory under work in progress in the year under review was Rs.16,169,330 and the expenses incurred in the year under review were Rs.7,543,255,but in the financial statement of the Polonnaruwa Dairy Factory, the opening balance of the year and the expenses incurred in the year under work in progress were Rs.11,822,998 and Rs.20,169,261 respectively. As a result, a difference of Rs.4,346,332 and Rs.12,626,006 was observed in those balances respectively. Furthermore, while no work in progress was capitalized during the year under review under the Polonnaruwa Dairy Factory in the Company's Statement of Financial Position, Rs.12, 626,006 had been capitalized as per the financial statements of the Polonnaruwa Dairy Factory.	As mentioned here, the financial statements have been shown as Rs.16, 169,330 for work in progress and in the relevant notes it has been shown separately as Rs.11, 822,998 and Rs.4, 346,332. Also, in the relevant note, it is stated that in relation to the machinery under property, plant and equipment, as of 2021/09/02, Rs.8,694,000 as Yoghurt Cold Room and as of 2021/04/01,Rs.3,932,006.21 as Ammonia Plant Condensed Unit, totaling Rs.12,626,006.21, has been capitalized for the year 2021. I would further like to inform you that it is shown in the fixed assets register.	Differences between the balances as per the factory financial statements and the balances as per the company financial statements should be identified and necessary adjustments should be made.
(g)	The 30 percent advance of Rs.28,223,096 and Rs.28,528,279 given at the beginning of the project for the construction of the new Badalgama dairy factory and the import of related machinery and spare parts, in the year under review, and 10 percent retention money of Rs.9,407,698 and Rs.9,509,426, respectively, for the years 2020 and 2021, should be transferred to the work in progress account. However, without doing so, the company had transferred to the work in progress account Rs.31,585,570 and Rs.28,365,543, respectively, as advance amounts, and Rs.10,528,523 and Rs.9,455,181, respectively, as 10 percent retention amounts, at the year-end exchange rate related to those payments. Therefore, the advance amount and 10 percent retention amount for the year 2020 were transferred in excess of Rs.3,362,474 and Rs.1,120,825, respectively, and the advance amount and 10 percent retention amount for the year 2021 were transferred in lack of Rs.162,736 and Rs.54,245, respectively.	It is agreed that the relevant adjustments will be made in the accounts.	When transferring the value of the relevant machinery and equipment spare parts to the work in progress account, the value should be calculated and transferred according to the exchange rates applicable on the invoice date.

(h)	The total amount of Rs.94,076,984 incurred during the year 2020 for the construction work of the new Badalgama dairy factory and the import of related machinery and spare parts had been accounted for as expenses of the year under review without making any adjustments to the opening balance.	It is agreed that the relevant adjustments will be made in the accounts.	Expenses incurred during the year 2020 must be adjusted against the opening balances of the year.
(i)	During the year under review, Rs.2,115,000 had been paid from local funds for consultancy services in the construction of the new Badalgama dairy factory, and including that expenditure, Rs.27,889,081 had been paid by the company for the factory. Although that expenditure should have been accounted for under work in progress, it had been written off against the profit of the year under review.	This balance has been mistakenly posted to the income and expenditure account for the year and it is agreed to make the necessary adjustments.	The cost of consultancy services for the construction of the new Badalgama dairy factory in the year under review should be accounted for under work in progress.
(j)	The remaining amount of 363,076.24 Euros at the end of the year under review, out of the initial advance payment of 19,180,692.30 Euros paid for the Desmi project for the construction of the Badalgama factory, should have been Rs.81,401,693, but was overstated by Rs.2,375,390 as it was stated as Rs.83,777,083 in the company's financial statements. Although the correct exchange loss related to this should have been Rs.999,614,the value had been overstated by Rs.5,575,127 due to the fact that the value was shown as a profit of Rs.4,575,513 in the company's financial statements. Although that value should have been accounted for in other operating income in the company's comprehensive income statement, the company had included it in the Treasury's debt balance.	We have identified that this project has been accounted for in a manner that is not fully compliant with Accounting Standard 21 due to the complexity of the transactions in the relevant construction contract and the use of the Treasury's "Disbursement Schedule" to account for those transactions. However, the impact of this non-compliance on these balances has been accounted for in this way to keep it to a minimum.	The relevant advance balance should be presented at the year-end foreign exchange rate and the exchange gains and losses should be calculated and accounted for correctly.
(k)	Although Rs.56,751,375 related to the Desmi project should have been transferred from the opening balance of long-term advances to the work in progress account during the year under review, an excess of Rs.3,199,738 was transferred due to the transfer of Rs.59,951,113.	We have identified that this project has been accounted for in a manner that is not fully compliant with Accounting Standard 21 due to the complexity of the transactions in the relevant construction contract and the use of the Treasury's "Disbursement Schedule" to account for those transactions.	The opening balance of long-term advances should be correctly transferred to the work in progress account.

		However, the impact of this non-compliance on these balances has been accounted for in this way to keep it to a minimum.	
(l)	The accuracy of the relevant values of constructing a cold storage facility at the Polonnaruwa factory, which was Rs.7,543,255,and the cost of constructing a closed tank at the Badalgama milk factory, which was Rs.13,280,786, the cost incurred during the year under review under the work in progress in the financial statements could not be verified due to that written evidence was not submitted to the audit.	Further informs you ,that all payments related to the expenses requested under the letter dated 03 May 2024 and No.FLS/C/MILCO/01/2021/2024/Info/01 in relation to the Polonnaruwa Factory have been made by the Head Office.	Written evidence relating to the cost of constructing a cold storage facility at the Polonnaruwa factory and the cost of constructing the closed tank at the Badalgama milk factory should be submitted to the audit.
(m)	Rs.19,092,300 interest received on the dollar fixed deposit as of July 06 of the year under review, when the dollar deposit matured, and the interest income receivable for the remaining 179 days of the year under review was Rs.25,452,720, resulting in an interest income of Rs.44,545,020 for the year, but was stated as Rs.46,452,198, resulting in a difference of Rs.1,907,178.	No answers were given.	Interest on dollar fixed deposits should be calculated and accounted for accurately.
(n)	In relation to the trade creditor balance under the company's trade and other payables balance, according to the schedules submitted for audit, the trade creditor balance shown under the head office was Rs.360,173,996, but since the balance in the list of creditors of the head office submitted for audit was Rs.349,759,934, there was a difference of Rs.10,414,062 in those balances.	The reasons for the difference between the net trade creditors' balance of Rs.360,173,996 and the net total of Rs.349,759,934 in the list of creditors of the head office submitted for audit are presented in the annexures.	Differences between the financial statements and the schedules should be identified and the necessary adjustments should be made and corrected.
(o)	According to the schedules presented in relation to other payables included in Note 17 under Trade and other payables under current liabilities in the Company's Statement of Financial Position, the balance of economic service charges that could be covered by the head office was stated as Rs.52,893,933, but due to the fact that the balance was stated as a negative balance of Rs.203,476,482 in the other payables schedule of the financial statements of the head office of the Company, there was a difference of	Although this balance is shown as a deduction from payables in the management accounts, it is shown under current assets and tax assets in the final accounts. Furthermore, a balance of Rs.203 million is not shown in the management accounts and is correctly shown as Rs.52 million.	Differences between the financial statements and schedules should be identified and the necessary adjustments should be made and corrected.

	Rs.256,370,415 in that balance. Net balances of Rs.281,192,118 were shown in the other creditors schedule of the head office financial statements, although they were not shown in the head office creditors balance as per the schedules.		
(p)	A Schedule of creditors' balances and a creditors' age analysis for the balance of Rs.45,039,718 of the Polonnaruwa factory, the balance of Rs.11,517,959 of the Digana factory, and the balance of Rs.1,229,974 of the Polgahawela cattle feed manufacturing division included in the trade and other payables balance of the company's statement of financial position were not submitted for audit.	The total accrued expenses for 2021 as per the register of the Digana Factory are presented in the annexes.	Action should be taken to submit creditor balance lists and creditor age analyses for all trade and other payables of the company.
(q)	The Comprehensive Income Statement included a write-off of Rs.59, 232,476 as Economic Services Charges (ESC) in the year under review, which was not included under non-cash items in the Cash Flow Statement.	It was mistakenly not shown separately and is shown as an adjustment under "Working Capital Changes". It is agreed to correct.	The cash flow statement should be prepared correctly.
(r)	Although the impairment of right-of-use assets in the comprehensive income statement was shown as Rs.13, 739,172,in the cash flow statement it was shown as Rs.13,051,662.There was a difference of Rs.687,570.	This balance has been correctly adjusted by Note No. 2. Property, plant and equipment and is not shown separately in the Income and Expenditure Account. If this balance is shown as obtained,a reconciliation document can be provided.	The balances should be adjusted to the cash flow statement should be adjusted correctly.
(s)	Although the deferred tax assets for the year under review were Rs.284,390,275 as per the audit calculations, there was a difference of Rs.46,411,485 due to the deferred tax assets being shown as Rs.237,988,790 as per Note No.13 of the financial statements.	Agree to make the relevant adjustments. However, since this is only shown as an entry in the accounts and has not been adjusted to the balance sheet, there is no change in the balance sheet.	Deferred taxes must be calculated and accounted for correctly.

(t)	Although the Cabinet had approved the conversion of the sub-loan balance of Rs.8,169,034,183 as of 31 December 2020, into a public investment and the waiver of the outstanding interest on that date in relation to the factory modernization project provided to the company by the General Treasury, no action had been taken to account for that loan as an investment and write off the relevant interest. As a result, the company's equity balance and long-term liability balance were understated and overstated by that value, respectively.	All the details and documents required for the issuance of shares for this balance have been submitted to the Company Secretaries and they are currently working on it. Furthermore, this decision is presented as an accounting note under separate note number '10 Stated Capital'.	As per the approval of the Cabinet, actions should be taken to account the sub-loan balance related to the factory modernization project as an investment and write off the relevant interest.
(u)	Of the total outstanding balance of Rs.54,198,075 at the Polonnaruwa factory, Rs.50,598,700, or 93 percent, were outstanding balances of more than 6 months, exceeding the company's average credit period of one month, while Rs.534,140 were balances from 2018 and Rs.40,804,344 were balances from 2019. The recovery of that balance was uncertain and no impairment adjustments had been made for it.	It is pointed out that the outstanding balance of Rs.41,338,484 mentioned here was created based on a program between our company and the Ministry of Education, and although the relevant funds have been received by our company, the marketing department that intervened in this regard has not provided us with accurate information to date.	Impairment adjustments should be made for balances whose recoverability is uncertain.
(v)	Although according to the financial statements, the value of the stocks issued free of charge and written off was Rs.23,379,775, and according to the schedules submitted for audit, that balance was Rs.46,113,191, resulting in a difference of Rs.22,733,416. Furthermore, the Board of Directors' approvals regarding the write-off of these stocks were also not presented for audit.	As indicated by the annexures.	Changes in the financial statements and schedules should be identified and necessary adjustments should be made.

1.5.3 Unreconciled Control Accounts or Records

Item	**Amount as per Financial Statements Rs.**	**Amount as per corresponding Record Rs.**	**Difference Rs.**	**Comments of the Management**	**Recommendation**
Property, Plant and Equipment - Cost	9,594,216,873	9,573,173,069	21,043,804	Rs.21,043,804 is the difference in cost arising from opening balances. It will be corrected.	
-Deprecation charge for the year	530,767,186	496,946,065	33,821,121	The difference of Rs.33,821,121, which is the sum of the depreciation in distribution expenses of Rs.2,268,090 and the depreciation in cost of sales of Rs.31,553,030, has been observed as the difference in depreciation in the year under review.	The values in the schedules should be presented as equal to the values shown in the financial statements.
Accumulated depreciation of 08 items of property, plant and equipment	3,893,681,904	3,897,020,435	7,924,615	The reasons for the difference can be given if the details are given for the 8 types of items in which the difference exists.	The values in the schedules should be presented as equal to the values shown in the financial statements.
Right to use assets -Cost	76,264,089	97,307,676	21,043,587	The difference of 21,043,587 of the cost of right-of-use assets Was due to the transfer of the vehicle which was worth Rs.11,000,160 to the vehicle under the right of use. This has resulted in changes in accumulated depreciation and written down value. That will also be corrected.	The values in the schedules should be presented as equal to the values shown in the financial statements.
- Accumulated Depreciation	41,861,765	38,611,204	3,250,561		
- Net Value	34,402,324	58,696,472	24,294,148		
Overdraft interest expense	19,905,504	25,256,078	5,350,574	Bank overdraft interest of Rs.19,905,504 is correct. Relevant documents have been submitted for audit.	The values in the schedules should be presented as equal to the values shown in the financial statements.
Cost of Sales	10,854,516,132	11,292,970,296	438,454,164	The profit on milk powder is added to the cost of sales shown in the final accounts and the value of unrealized profit is deducted.	The values in the schedules should be presented as equal to the values shown in the financial statements.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

	Audit Observation	Comments of the Management	Recommendation
(a)	The total value of advances paid for purchases at the Ambewela factory as at 31 December 2021 was Rs.3,632,777,of which Rs.1,268,432 or 35 percent was balances from years 04 to 12 and their recovery was uncertain.	The relevant parties have been informed to settle the advance money of Rs.1,268,432 received before the year 2018 for the purchases of the Ambewela factory and the head office has been informed to take disciplinary action regarding the advance money that has not been settled so far.	Action should be taken to recover the advance value paid for purchases.
(b)	As per the schedule on 31 December 2021, the prepayment balance of the company was Rs.5,929,081, and Rs.5,075,133 or 86 percent were balances exceeding 05 years.	These balances include balances that have remained unchanged for a long time and the process of obtaining the relevant approvals to remove those balances from the accounts is currently underway. These accounting errors will be corrected through appropriate corrections in future years.	The balances that have been unchanged for a long time should be correctly identified and settled.
(c)	Out of the total debtor balance of Rs.54,718,600 in Digana factory, Rs.6,626,011 was exceeding 05 years and the said balance had not been recovered by the end of the year under review.	Notifications have been issued to settle the long-standing balance of Rs.6,626,011, which is over 05 years old, and the head office has been informed.	Action should be taken to collect the debtor balance of Digana factory.
(d)	Out of the receivable balances of the regional sales centers under the head office of Milco Company, Rs.2,776,919 were debit balances and Rs.951,761 were credit non-moving balances and the recovery of those balances was uncertain.	In the existing balance sheets of the company, there are a large number of balances that have remained unchanged for more than 5 years, some of which have no source documents and others are persistent balances based on accounting errors. The audit committee of the company has obtained the approvals regarding the writing off of this balance, and will proceed to write off the balance after obtaining the approvals of the board of directors.	The relevant long term unchanging balances of receivables should be correctly identified and appropriate accounting action should be taken.

1.6.2 Accounts Payable

	Audit Observation	Comments of the Management	Recommendation
(a)	According to the age analysis of creditors of the head office submitted to the audit, there were creditors amounting to Rs.4,548,588 between the years 01 and 05 and the creditor balances amounting to Rs.9,102,469 that existed for more than 05 years and action had not been taken to settle the balances.	These balances include long-term non-moving balances and the process of obtaining approvals to remove those balances from the accounts is currently underway. These accounting errors will be corrected in the coming years by the relevant corrections. Moreover, although these long-term balances exist for some reasons, the current suppliers have been properly paid and there is no problem with the current transactions.	Action should be taken to settle the creditor balances that have been going on for a long time.
(b)	The balance of Rs.2,108,063 owed to the National Milk Board under the interest-free loan in Note No. 14.2 of the financial statement that exists for long time had not been settled at the end of the year under review.	These balances include long-term non-moving balances and the process of obtaining approvals to remove those balances from the accounts is currently underway. These accounting errors will be corrected in the coming years by the relevant corrections.	Action should be taken to settle the balance of Rs.2,108,063 payable to the National Milk Board.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Public Enterprise Circular No. PED/12 dated 02 June 2003			
(i) Section 6.5.1	Although the financial statements and draft annual report should be submitted to the Auditor General within 60 days after the end of the accounting year, the financial statements for the year 2021 were submitted on 11 March 2024. Accordingly, there was a delay of 710 days.	Answer had not been given.	Financial statements and draft annual report should be submitted to the Auditor General as per Treasury Circulars.
(ii) Section 4.2.6	Performance reports/progress reports should be prepared and submitted for 2021; but such reports have not been prepared and submitted.	Answer had not been given.	Performance reports/progress reports should be prepared and submitted as per Treasury circulars.

(iii) Section 5.1.2	The organizational structure and performance indicators that should be included in the business plan were not included in the business plan prepared for 2019 and 2020.	Answer had not been given.	As per the Treasury circular, the organizational structure and performance indicators to be included in the corporate plan should be included in the business plan.
Public Finance Circular No. 01/2014 dated 17 February 2014 Section 5 (2)	The annual budget document, statement of financial position, cash flow statement and debt repayment plan for the year, which should have been included in the prepared action plan, had not been included.	Answer had not been given.	The action plan should be prepared by including the items mentioned in the circular.

2. Financial Review

2.1 Financial Result

The operating result before taxation of the year under review amounted to a profit of Rs.34,325,163 and the corresponding profit in the preceding year amounted to Rs.225,756,290. Therefore an deterioration amounting to Rs.191,431,127 of the financial result was observed. This decline was mainly due to increase in cost of sales, increase in administrative expenses and increase in distribution expenses. In the year under review, although the company's total sales revenue showed a growth of 12.35 percent compared to the previous year, it was observed that the cost of sales had grown by 16.38 percent compared to the previous year, the increase in the primary cost included in the cost of sales by Rs.1,645,267,725 and the factory overhead cost by Rs.21,834,350 had affected the growth in the cost of sales. The increase in building repair and maintenance expenses included in factory overhead cost by Rs.15,753,091 had resulted in a significant increase in factory overhead cost.

2.2 Ratio Analysis

Current assets ratio, quick assets ratio, gross profit ratio were 2:1, 0.89:1 and 9.48 respectively in the year under review and the same ratios were 1.52:1, 0.79:1 and 12.62 respectively in the previous year. Accordingly, compared to the previous year, deterioration was observed in the quick asset ratio and the gross profit ratio, except for the current asset ratio, and it was observed that the quick asset ratio was at a weak level, so it was facing a working capital problem. The decrease in the gross profit ratio was due to the increase in the cost of sales. In the year under review, the gross profit ratio of the company was 9.48 percent and the net profit ratio was 0.28 percent which was very minimal and it was observed that it has a negative effect on the existence of the company.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	In the fixed assets register related to the company's fixed assets which cost Rs.981,084,381, the values such as depreciation, net value at the end of the year, etc. had not been updated and maintained.	The organization currently maintains fixed asset registers in Excel and physical verification has not been carried out. But the asset register is maintained with accurate calculations.	Fixed asset register should be updated and maintained.
(b)	The provision for taxes of the head office included in the company's financial statements included the income tax penalty provision balance of Rs.8,425,296, which had existed for many years and which had not been settled even at the end of the year under review.	These balances include long-term non-moving balances and the process of obtaining approvals to remove those balances from the accounts is currently underway. These accounting errors will be corrected in the coming years by the relevant corrections.	Action should be made to settle the balance of the provision of income tax penalty that have been going on for many years.
(c)	Although the financial statement of the year under review shows a property, plant and equipment net balance of Rs.5,332,387,240, the company has not done any asset verification after the year 2008 regarding the property, plant and equipment.	It is expected to carry out the related physical verification and asset revaluation in the coming year.	A physical verification should be done regarding the assets of the company.
(d)	The work-in-progress balance of Rs.805,860,149, which is included in the statement of financial position since the beginning of the year 2019, remained at the end of the year under review and the necessary steps were not taken to complete the work.	Rs.790 million in this unchanged balance is related to factory modernization. More than 95 percent of the factory's modernization work has been completed and the remaining balances have not been properly identified and are listed as CWIP. This will be capitalized in future as per engineering recommendation.	The work related to the balances that have not been updated for a long time should be completed quickly and action should be taken to capitalize the relevant balances.

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	In July 2017, the Ambewela new milk powder plant had started production and from that date to 18 January 2018, 720 metric tons of milk powder costing Rs.475.2million were defective and confirmed by the company's laboratory reports that they were unfit for human	This stock has now been completely sold out for animal feed.	An investigation should be conducted regarding the related loss and action should be taken to recover the loss from the responsible officials.

	Audit Observation	Comments of the Management	Recommendation
	consumption. In connection with that, according to the inspection conducted by the Peradeniya Gannoruwa Veterinary Research Institute, the institute informed on 07 August 2018 that this milk powder is suitable to be used as an ingredient for the food of camels. After receiving complaints from customers, 666,075 kg of the stock of milk powder was brought back to the warehouse as of 31 December 2021, and due to this, other operational activities of the warehouse have been disrupted and no investigation has been conducted regarding this loss and no action has been taken to recover the losses from the relevant responsible officials.		
(b)	Due to the fact that the company's products were given to the sales representatives at a higher price than the price that should have been given to the respective representative, an income of Rs.26,373,018 had been collected from the respective representatives.	After the company increases or decreases the price, the relevant representatives will be informed about it. Accordingly, over price cannot be charged for the goods purchased by them.	Action should be taken to sell the products at the fixed price given to the respective agents.

3.3 Procurement Management

	Audit Observation	Comments of the Management	Recommendation
(a)	In relation to the construction of Badalgama New Dairy Factory, in the agreement signed with Milco Company and the foreign private contracting company, a bill of quantity was not prepared for the construction of 25,215,692 Euros, so it was observed that there is confusion regarding the accuracy of the related payments and the quality standard of the construction.	This project is received by the institution based on a government decision and the selection of the relevant supplier has been done by the Cabinet Appointed Negotiation Committee (CANC). Due to that, it is not possible to provide a detailed answer to the relevant queries.	Bills of Quantities should be prepared in respect of every construction contract.
(b)	For the Badalgama Dairy Project, a contract value of Rs.9,718,217,432 (63,935,641 Euros) was contracted with a foreign contracting company in 2016 and it was scheduled to be completed in 2019. As of 31 December 2021, Rs.11,868,506,855 had been spent and the project was being implemented. The contract for the construction of the Badalgama Dairy	This project is received by the institution based on a government decision and the selection of the relevant supplier has been done by the Cabinet Appointed Negotiation Committee (CANC). Due to that, it is not possible to provide a detailed answer to the relevant queries.	In relation to the construction contract work, the government procurement guidelines should be followed.

	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 it is stated under Section 3 of the related Procurement Guidelines Supplement 23 that only projects where contractors with special technical knowledge cannot be found can be implemented as unsolicited Projects. But since it is possible to find a contractor for the construction of such a factory through international bidding, it was not possible to accept the minimum bid for the construction cost of 9,718,217,432 (EURO 63,935,641).		
(c)	According to Supplement 28 (Supplement 28) of the procurement guidelines, if the total estimated value of any procurement activity is limited to a value between 10 and 20 million rupees, the relevant procurement must be approved by the relevant line ministry. However, the estimated cost of construction of the office building of Digana Dairy Factory, exclusive of paye tax and nation building tax is Rs.3,976,320 and the estimated cost for preparing the polythene cover of the roof of the office building was estimated as Rs.13,453,900 excluding paye tax and nation building tax, totaling Rs. 17,430,220, but without the approval of the relevant ministry, the entire work was carried out in two parts with an institution-level approval less than 10 million. According to the above addendum, at least 05 bids should be evaluated and the relevant complete work should be awarded, but only 02 bids were evaluated and the above procurement was awarded. During the year under review, Rs.9,962,262 and Rs.19,635,143 in the two years before the year under review, a total of Rs.29,597,405 had been paid for this work.	Due to the complexity of the related construction contract transactions, we have identified that this project is not fully compliant with accounting standards 21 based on the use of the Treasury's "Disbursement Schedule" to account for those transactions. But due to that non-compliance, the impact on these balances has been accounted for at a minimum level.	According to Supplement 28 of the Procurement Guidelines, if the total estimated value of any procurement activity is limited to a value between 10 and 20 million rupees, then the related procurement should be approved by the relevant line ministry.

3.7 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
Ambewela Dairy Factory's production was limited to 25 percent of its capacity, while the milk processing plant, which produced Rs.11,868,506,855 in the Badalgama New Dairy Factory, Rs.15,445,587 worth of ice cream cone filling machines in the Digana milk factory, and Rs.104,177,779 worth of yogurt mixers existing in the Colombo factory, and 04 machines amounting to Rs.2,275,000 were also idle.	Due to the low level of current daily milk collection in the company, arrangements have been made to increase milk collection in several stages and the necessary studies are being carried out by the engineering department to bring the ice cream cone filling machine to operational level and accordingly, the necessary adjustment accounts after the completion of this process. It is expected to make necessary adjustments to Yoghurt mixing machine in the future based on the opinion of the engineering department.	Action should be taken to utilize idle machines.