Milco (Private) Company - 2022

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1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Milco (private) company for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity, cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with 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.

I do not express an opinion on the accompanying financial statements of the company. Because of the significance of the matters described in paragraph 1.5 of this report, I have not been able to obtain sufficient 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 on the matters described in paragraph 1.5 of this report.

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 and for such internal control as 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 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 on preparation of the financial statements

1.5.1 Non-compliance with the Sri Lanka Accounting Standards

	Non-compliance with reference to the relevant standard	Comments of the Management	Recommendation
(a)	Though the closing stock should be reported to the cost or net realizable value whichever is lower in the calculation of the closing produced finished good stock as per the paragraph 09 of Sri Lanka Accounting Standard 02, the closing produced finished goods stock of Digana Factory had been accounted to the cost value of Rs.50, 661,862 instead of the net realizable value of Rs.46, 872,232 by company. As a result of that, the overall stock balance had been overstated by Rs.3, 789,630.	In preparation of the financial statements of Digana Factory, the stock value calculated at the factory price as the closing finished goods stock had been included by a mistake.	The action should be taken as per paragraph 09 of Sri Lanka Accounting Standards 02.
(b)	The withdrawal of long-term fixed deposit of Rs.205, 000,000 had not been mentioned as the cash inflows under the investment activities in accordance with Sri Lanka Accounting Standards 07. Even though the investments matured in 03 months or less than 03 months should be included in the cash and cash equivalents in the cash flow statement as per paragraph 07 of the standard, the deposit withdrawn had been reinvested as short-term investments and though such investments should be indicated as aggregate of cash and cash equivalents at the end of year, it had not been accounted in that manner.	The relevant changes had occurred due to indication by a mistake. The action will be taken to keep the relevant fixed deposit accounts in an accurate manner in the preparation of the consolidated financial statements in future years.	Having accurately identified the cash flows, the steps should be taken to prepare the cash flow statement.
(c)	Even though a fixed asset revaluation should be carried out again within a specific period of time after performing a fixed asset revaluation as per paragraphs 31 and 34 of Sri Lanka Accounting Standard No.16, new	It is expected to carry out a fixed assets revaluation in due course having made aware the management.	The action should be taken as per the paragraphs 31 and 34 of Sri Lanka Accounting Standards No.16.

	revalued amounts had not been included in the accounts due to not carrying out an asset revaluation by company up to the end of year under review after 2008.		
(d)	Even though Expected Credit Loss Method should be used for the measurement of later impairment identifications for a trade debtor balance of Rs.539,538,417 in accordance with the paragraph 5.5.15 of Sri Lanka Financial Reporting Standard 09, trade and other debtors in the year under review had been overstated or understated.	The provision for doubtful debts had been made for an amount of Rs.50, 913,625 from the trade debtors of Rs.539, 538,417 in the financial statements presently.	The action should be taken as per the paragraph 5.5.15 of Sri Lanka Financial Reporting Standards.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Since an aggregate payable balance of Rs.48, 184,538, a debit balance of Rs.12, 278,092 in the trade creditors and a credit balance of Rs.42, 699,675 in the debtors balance in relation to the head office, Colombo, Polgahawela and Digana Milk Factory had existed; total payable balance, trade creditors' balance and total debtors balance had been understated by those amounts.	These credit and debit balances had existed since long time, these balances had arisen on the accounting faults and the documentary faults and the actions are being taken to carry out an analysis on said balances presently and the steps will be taken to settle it.	Without set off the accounting faults, it should be shown in the financial statements.
(b)	In accordance with the schedule submitted to the audit, unsettled pre-payment of Rs.8,804,121 carried out with regard to 90 incidents from 2005 to 2022 by head office had been indicated as the debit balances under creditors in the statement of financial position.	The action had been taken to rectify such accounting error after showing under the current assets in the financial statements 2023.	The pre-payments should be accurately accounted.
(c)	Due to existence of credit balance of total Rs1,606,085 shown under the advances, deposits and pre-payments of Rs. .131,829,724, the value indicated in the financial statements had been understated by same amount.	These credit balances are the balances arisen on the accounting errors and the action had been taken to rectify the relevant credit balances presently.	It should be indicated in the financial statements without set-off the accounts.

(d)	The rent expense of Rs. 1,335,985 in relation to the preceding year had been accounted as a rent expense in the year under review.	The relevant difference depicts the monthly rent expense from 20 December 2021 to 19 January 2022.	The action should be taken to accurately identify and account the expenses related to year.
(e)	Without transferring the right of use assets of Rs.50, 934,183 on which the payments had been completely made at the end of year under review to the motor vehicle account, it had been included under the right of use assets and the relevant depreciation had not been computed and accounted.	This accounting error had been rectified in the preparation of the financial statements 2023.	The action should be taken to accurately account right of use assets.
(f)	Even though an amount of Rs. 12,641,310,517 incurred for Badalgama Milk Processing Centre Establishment Project had been accounted under the expenditure head of 118-2-3-54-2507-0/12 in 2021 of Ministry of Finance, an amount of Rs.12, 641,310,517 had been identified in the financial statements as a loan payable to the Treasury by company. However there was no on lending agreement between Treasury and company in relation to this loan.	After further finding out this matter subsequent to inquiry from the responsible parties, the action will be taken to remove these loan balances from the company accounts in due course.	The step should be taken to account the relevant loan balance after identifying whether such loan balance should be paid or not.
(g)	The capital grants of Rs.16, 167,750 indicated under the government grants in the financial statements had existed more than 05 years and no action had been taken to calculate and account the deferred income related to this.	The accounting of balance of Rs.16, 000,582 which is grant of LCRD under government grants as the deferred income in the financial statements had been commenced in 2023. Though the balance of Rs.52, 776 had been accounted, said amount had not been received yet. The documents related to the balance of Rs.114, 392 are not available.	The action should be taken to adjust in the financial statements having identified the deferred income in relation to the government grants.
(h)	No measures had been taken to identify and account the unidentified deposit of Rs.2, 611,447 deposited from 2019 to 2022 in the current of Peoples' Bank with regard to Pollanaruwa Factory.	The action had been taken to rectify the unidentified deposit balances of Rs.2, 611,447 prevailed in the bank reconciliation in Pollannaruwa Factory in 2023 and 2024.	The steps should be taken to accurately account the unidentified deposits having identified and settled those.

(i)	The detailed schedules in relation to miscellaneous income of Rs.6, 903,437 in Pollanaruwa Factory had not been submitted to the audit.	It had not been commented.	The step should be taken to submit the information in relation to income to the audit.
(j)	A provision of Rs.12, 096,362 had been made for the stock shown in the financial statements and no measure had been taken to identify the redundant stock and removed from the books.	This is a provision made in the accounts for the redundant stock existed in the stores before many years.	Having identified the redundant stock, it should be formally disposed.

1.5.3 Non reconciled control accounts or reports

	Item	**Value as per the financial statements Rs.**	**Value as per the corresponding reports Rs.**	**Difference Rs.**	**Comments of the management**	**Recommendation**
(a)	Cash in hand	12,900,177	12,319,915	580,262	In the preparation of the consolidated financial statements, the relevant value had been included in other creditor balance.	The measures should be taken to accurately account the cash in hand.
(b)	Current accounts cash balances	28,520,740	28,132,671	388,069	The relevant difference had arisen on non-occurrence of such rectification the accounting error occurred between cash sales control account and bank and cash account balances	The action should be taken to accurately identify the value and account.

prevailed in the final account of Digana Factory in the preparation of the consolidated financial statements.

1.5.4 Lack of Documentary Evidence for Audit

	Item	Amount Rs.	Audit Evidences not provided	Comments of the Management	Recommendation
(a)	Trade and other creditors (Head Office)	32,737,312	Balance confirmations, Schedules	It had been informed in writing through registered post to submit the balance confirmations for all creditors to the audit office.	The evidences required for the balance confirmations should be submitted to the audit.
(b)	Debtors Balances	30,134,273	Balance confirmations, Schedules	The request letters had been sent to the relevant debtor parties through registered post including the address of National Audit Office to submit the balance confirmations to the Audit Office and the action had been taken to inform it via telephone.	The evidences required for the balance confirmations should be submitted to the audit.
(c)	Payable to National Milk Board	2,108,063	Balance confirmations, age analysis	These balances had existed in the accounts since many years and any source document couldn't be found with the company for confirmation those.	The action should be taken to identify and settle these balances.

1.6 **Accounts Receivable and Payable**

1.6.1 **Accounts Receivable**

	Audit Observation	Comments of the Management	Recommendation
(a)	The actions had not been taken to recover the debtor balances totaling Rs. 95,597,421 which exceeded 05 years in Ambewela, Digana, Colombo, Polgahawela, Polonnaruwa Factories.	The details are available on how most of the debtor balances; included in this balance, have been arranged, and a description on the arrangement of the relevant balances has been unable to be prepared due to the difficulty of finding source documents on how some of the balances have been arranged.	The actions should be taken to recover the overdue balances.
(b)	The steps had not been taken by the company to settle the balances totaling Rs. 29,035,960 existing for many years under the advances paid, deposits and payments previously made.	No comment has been made.	The actions should be taken to settle the relevant balances.
(c)	As per the financial statements, the actions had not been taken for many years to recover a balance amounting to Rs. 1,185,342 related to the issuance of milk powder on credit basis to the employees of the Digana factory.	This exists since before 2014 and the information related to its recovery is not available in the Accounts Division.	The respective parties should be identified and the overdue amounts should be collected.

1.6.2 Accounts Payable

Audit Observation	Comments of the Management	Recommendation
The actions had not been taken to settle the creditors amounted to a value of Rs. 2,573,997 between 01 to 05years and the creditor balances of Rs. 11,192,807 existing from a period of more than 05 years.	Although the balances continuing due to accounting errors are being settled at present, the relevant source documents required to verify certain balances have been difficult to be found in the Finance Division of the Head Office.	The creditor balances should be settled.

1.6.3 Advances

Audit Observation	Comments of the Management	Recommendation
The Balance of Purchase Advances totaling Rs. 1,268,431 for 24 suppliers related to the Ambewela factory remained uncollected as at the date of audit; 30 June 2025.	The arrangements are already been made by the company to settle the relevant advance balances, and accordingly a sum of Rs. 160,000 has been recovered.	The advance value paid in terms of purchases should be recovered.

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
(a)	The operational manual and guidelines issued by the Public Enterprise Circular No.1/2021 dated 16 November 2021			
	i. Section 2.3	A budget had not been presented by the Company for the year 2022 and the details had not been included in the prepared Action Plan as per the guidelines, as well as only the details about the targeted programs had been included.	No comment has been made.	The actions should be taken to prepare and present a budget as per the provisions of the circular.
	ii. Section 6.6.	Although the financial statements and draft annual report should be presented to the Auditor General within 60 days upon the end of the accounting year, the financial statements for the year 2022 had been presented on 05 February 2025. Consequently, a delay of 705 days happened in submitting	No comment has been made.	The actions should be taken to prepare and present the Financial Statements and Annual Reports in accordance with the provisions of the Circular.

		the financial statements. Further, the draft annual report had not been prepared and presented along with the financial statements as stated in Annexure 3 of the Guidelines pertinent to the Public Enterprises.		
(b)	Paragraph 4.2.1.(b) of the Procurement Guidelines	A major procurement plan for a period of at least three years and a regularly updated procurement plan for the year had not been prepared by the Company.	No comment has been made.	The actions should be taken to prepare a procurement plan in line with the Procurement Guidelines.

1.8 Finance Management

Audit Observation	Comments of the Management	Recommendation
A sum of Rs. 815,549,265 had been incurred as bank overdraft interest during the period from 2020 to 2024 for the bank overdraft facility of Rs. 1,200,000,000 obtained for the Current Account of the Bank of Ceylon by bonding the US Dollar fixed deposit, and the related fixed deposit interest income was Rs. 458,910,062. Accordingly, an additional cost of Rs. 356,639,203 had been incurred and it was observed that the attention of the management should be directed on reducing the bank overdraft.	As the overdraft facility approved and obtained in the year 2022 has been used widely, a higher amount of overdraft interest for it has been charged by the bank. Consequently, the interest income related to the fixed deposit kept as a surety in relation to it has been exceeded.	The required measures should be taken to minimize the bank overdraft balance.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a loss of Rs. 473,942,776, and the corresponding loss of the previous year was Rs. 161,908,810. Accordingly, a deterioration of Rs. 312,033,966 was observed in the financial result. This deterioration had been mainly resulted from the increase in selling costs and administrative expenses.

2.2 Trends Analysis of main Income and Expenditure Items

(a) Even if the total sales revenue of the company in the year under review showed an increase of 5.49 percent compared to the previous year, the cost of sales had been increased by 12.73 percent compared to it. The increase in primary cost included in the cost of sales by Rs. 1,299,796,119; this is 12.58 percent, energy cost by Rs. 577,855,524; this is 102.62 percent, and marginal cost by Rs. 2,026,093,823; this is 17.79 percent compared to the previous year had been causal for the increase in the cost of sales. Although the gross profit ratio was 9.5 percent in the previous year, the said ratio was 3.29 percent in the year under review. Accordingly, the gross profit had been decreased by 63.5 percent.

(b) Other income of the company had been increased by 725 percent compared to the previous year due to foreign exchange gains. The finance income had been increased by 188 percent. The finance expenses had been decreased by 71 percent compared to that. The administrative expenses and distribution expenses had been increased by 25 percent and 19 percent respectively compared to the previous year.

2.3 Ratio Analysis

(a) The current asset ratio, quick asset ratio, gross profit ratio, net profit ratio in the year under review were 1.18, 0.39, 3.29 percent, and minus 3.60 respectively, and these ratios in the previous year were 1.99, 0.76, 9.50 percent, and minus 1.30 respectively. Accordingly, deterioration was observed in these ratios. There was a decrease in the current asset ratio and quick asset ratios, and it was observed that the company was encountering with a problem of working capital due to this matter. The quick asset ratio was 0.39 and it was observed that there are no liquid assets adequate to meet current liabilities of the company.

(b) It was observed that the gross profit ratio and the net profit ratio of the company being 3.29 percent and a minus value of 3.60 percent respectively in the year under review had a negative impact on the existence of the company. Further, the earning per share was minus 0.56 in the year under review, and that of the previous year was minus 5.07. Accordingly, no earning on share had been made in the year under review and the company had an operational inefficiency and the performance remained at a weak level.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The selling price of 750 grams of Butter Bulk Staff Pack; produced merely for the welfare of the employees without the aim of releasing to the market, was Rs. 330, and the factory price of 1 kilogram of	This is a task of providing 750g piece of butter monthly on welfare basis by the company to the permanent employees of the company since a long period with	In a situation where the company is experiencing losses continuously, the necessary measures should be taken to

	butter ranged between Rs. 1,700 and Rs. 2,753 in the year under review. Although an income of Rs. 4,702,500 had been earned by the sales of 14,250 butter packets of 750 grams to the employees of the institution in the year under review, the loss of sales income during the year due to non-sale of this 1 kilogram of butter at the factory price was Rs. 19,485,795.	the approval of the management, and the loss incurred on selling one 750g piece of butter to an employee compared to the production cost of the relevant item is just about Rs. 614 as at 31.12.2022. Accordingly, the company does not experience a loss of income that has been mentioned as per the calculations.	minimize the employee welfare expenses and to increase the sales of the product in order to increase the revenue.
(b)	The balances of Rs. 150,000, Rs. 15,445,587 and Rs. 790,264,562 respectively related to the construction of Gatambe Sales Outlet, the installation of the Ice Cream Cup and Cone Filling Machine at the Digana Dairy Factory and the renovation of the Polonnaruwa, Ambewela and Digana factories included in the ongoing works were being carried forward continuously since the year 2012 and the said construction and renovation works had not been accomplished.	A sum of Rs. 150,000 has been paid to construct a retail outlet in the Gatambe area of Kandy many years back, and however it has not been accomplished yet. Even if an ice cream cup and cone-filling machine worth Rs. 15,445,887 has been purchased for Digana factory a few years ago, it has not yet been put into a usable status. Although an amount of Rs. 790,264,562 had been allocated for the Digana factory under the factory modernization program, the said modernization works have not been completed yet.	The works related to long-standing ongoing activities should be completed immediately, and the proceedings should be made to capitalize the relevant balances.
(c)	The income tax fine allocation balance of Rs. 8,425,296; which is existing for many years in the allocation balance for the taxes included in the financial statement of the head office had not been settled even by the end of the year under review.	Since the fines for income tax payable, shown under the allocations for taxes in the accounts of the head office, have been accounted around in the year 2003, the details to confirm the relevant balance are not available in the Accounts Division.	The actions should be taken to settle this balance.
(d)	The state-owned land where the Ambewela factory has been established is with an extent of 40 acres 01 rood 36 perches, and although the constructions and installations worth Rs. 5,548 million have been done by the company, the ownership of this land had not been taken over by the company even as of 31 December 2022.	Although a policy decision has been taken by the government to provide further 37 more lands; including the land where the Ambewela factory is located, to Milco Company on 50-year lease basis, the government has not yet taken steps to issue the deeds of lease for those lands.	The required proceedings should be made to take over the ownership of the land to the Company.