

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Mahaweli Livestock and Agro Enterprises (Private) Limited for the year ended 31 December 2025 comprising the statement of financial position as at 31 December 2025 and the statement of comprehensive income, statement of changes in equity and 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 presented in Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of Mahaweli Livestock and Agro Enterprises (Private) Limited. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my 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

As described in paragraph 1.5, I was unable to confirm or verify by alternative means, material items included in the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement.

As a result of these matters, I was unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded amounts and the elements making up the statement of financial position, statement of changes in equity and cash flow statement.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Enterprises 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 conduct an audit of Company's Financial Statements in accordance with Sri Lanka Auditing Standards and to issue an Auditor's report. However, because of the matters described in the basis for Disclaimer of Opinion section, I was not able to provide a basis for an audit opinion on these financial statements.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standard for Small and Medium-sized Enterprises

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) Even though a sum Rs. 241,410 had been deducted from the revenue reserve and Rs. 1.68 million had been added as adjustments relating to prior years, the prior-year errors had not been retrospectively adjusted in the comparative financial statements in accordance with paragraph 10.21 of the Accounting Standard for Small and Medium-sized Entities. Furthermore, the relevant disclosures required under paragraph 10.23 of the said Standard had not been made.	It has been noted that the matter is to be rectified in 2026.	Action should be taken to retrospectively adjust the prior-year errors in the comparative financial statements and to disclose the relevant adjustments in accordance with the Accounting Standard.
(b) The value of the 1054 acre land belonging to the Girandurukotte Farm and the value of the 100-acre land belonging to the Damminna Farm had not been recognized in the accounts in accordance with paragraph 17.4 of the Accounting Standard for Small and Medium-sized Entities.	The 1054 acres of land at the Girandurukotte Farm and the 100 acres of land at the Damminna Farm had been provided solely for the use of the Company, and ownership of such lands had not been transferred to the Company.	The values of the lands should be assessed and recognized in the accounts in accordance with the Accounting Standard.
(c) According to paragraph 23.10 of the Accounting Standard for Small and Medium-sized Entities, when recognizing revenue, the risks and rewards associated with the goods should have been transferred to the buyer. However, 40 teak trees sold in 2025, which had been recognized as revenue amounting to Rs. 2.44 million in the financial statements, had not obtained the necessary approval for	It will be correctly done in the future.	According to the applicable Accounting Standard, revenue from sales should be recognized only after the risks and rewards associated with the goods have been

removal as at the audit date of 09 March 2026. Consequently, revenue had been overstated by Rs. 2.44 million.

transferred to the buyer.

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| (d) | Even though the gratuity liability should be calculated based on the actuarial valuation method and the relevant adjustments should be made to the financial statements according to paragraph 28.18 of the Accounting Standard for Small and Medium-sized Entities, the Company had not complied with this requirement. | It is noted that the actuarial valuation method will be adopted in the future, as the Company has a relatively small number of employees and considered that incurring a significant cost to obtain expert assistance for applying the actuarial valuation method in calculating gratuity was not feasible. | The gratuity liability should be calculated and accounted for based on the actuarial valuation method, as per the applicable Accounting Standard. |
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1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) In preparing the Statement of Cash Flows, gratuity payments amounting to Rs. 322,420 and the total profit of Rs. 10 million arising from the valuation and sale of teak trees had not been appropriately adjusted against profit as a non-cash transaction. Further, the proceeds of Rs. 3.15 million from the sale of teak trees had not been presented as cash inflows under investing activities. In addition, the decrease in inventories amounting to Rs. 1.24 million had not been adjusted under changes in working capital. Furthermore, while the change in trade and other payables amounting to Rs. 6.55 million represented a cash outflow, only Rs. 5.61 million had been presented as a cash outflow in the Statement of Cash Flows.	action had been taken to rectify the matters identified.	Changes in working capital and investing activities should be correctly identified, and the Statement of Cash Flows should be prepared accordingly.
(b) The Niraviya Farm located in Tambuttegama, Kantale Farm, Siddhapura Farm located in Polonnaruwa, and Muthuwella Farm located in Welikanda, which were owned by the Company, had been transferred to the	Discussions will be held with the Sri Lanka Mahaweli Authority in this regard, and further action will be taken	Formal written documentation should be exchanged in respect of the farms transferred to the Mahaweli Authority,

Mahaweli Authority during the period from 2005 to 2010 without a formal exchange of written documentation. Although the fixed assets of those farms, with a cost amounting to Rs. 22.34 million, were not being used by the Company, they continued to be included in the financial statements of the Company. Further, physical verification of those assets had not been carried out by either by the Mahaweli Authority of Sri Lanka or the Company. Consequently, the existence of those assets could not be verified during the audit.

during the year 2026.

and the financial statements should be adjusted accordingly. Further, these assets should be physically verified to confirm their existence.

- (c) Due to weaknesses in internal controls, the Company had continuously made adjustments to the financial results of prior years in respect of income and expenditure that had not been correctly recognized in the respective years. As a result, the financial results reported in the audited financial statements for the years 2022, 2023 and 2024, which were a profit of Rs. 167,815, a loss of Rs. 295,352 and a profit of Rs. 9.77 million, respectively, had changed to a profit of Rs. 627,268, a loss of Rs. 6.34 million and a profit of Rs. 11.21 million, in the years 2022, 2023 and 2024 respectively, representing variations ranging from 15 percent to 2048 percent.

It is noted that, in the future, expenses relating to each financial year will be recognized and adjusted within the respective year.

An effective internal control system with clear responsibilities should be established to ensure the accurate recognition of income and expenditure relating to the respective financial year.

- (d) Even though the recoverability of receivable balances amounting to Rs. 13.32 million that had been outstanding for more than five years was uncertain, no impairment loss provision had been made in respect of such balances.

It has been noted that provisions for doubtful debts will be made commencing from the year 2026. It has also been noted that the outstanding balances exceeding five years will be settled in installments during the year 2026.

Adequate impairment loss provisions should be made for receivable balances whose recoverability is uncertain.

- (e) Vehicles with a carrying value of Rs. 2.29 million, as at 31 December 2025, had been removed from the non-current asset balance and the fixed asset register and recorded in a disposal account.

It has been noted that the vehicles will be disposed of during the year 2026.

Assets identified for disposal should continue to be presented under non-current assets until they are disposed of and removed from the accounts.

- (f) Cabinet approval had been granted on 03 October 2018 to restructure the Company as a public-private partnership with an external investor selected by the Project Committee. Further, on 25 January 2022, Cabinet approval had again been granted to restructure the Company through a contractual public-private management arrangement. However, the restructuring activities had not been carried out as at 09 March 2026. Further, it was observed that the Company's current ratios for the years 2023, 2024 and 2025 were only 0.32:1, 0.33:1 and 0.4:1, respectively, indicating significant uncertainty regarding the Company's ability to continue as a going concern. Even though, this significant uncertainty had not been disclosed in the financial statements in accordance with paragraph 3.9 of the Accounting Standard for Small and Medium-sized Entities.
- The Mahaweli Authority of Sri Lanka will undertake this activity.
- Necessary action should be taken promptly to implement the Cabinet decision that has been granted, and measures should be taken to maintain the Company's current ratio at 2:1.

1.5.3 Lack of Documentary Evidence for Audit

	Item	Amount Rs.Million	Audit Evidence Not Presented	Comments of the Management	Recommendation
(a)	General Reserve				
(i)	Mahaweli Economic Agency	388.58	evidence that can substantiate the value	There were no supporting documents available to substantiate the balances presented as stated capital and reserves.	Documents relevant to confirm the balances should be submitted for audit.
(ii)	Milk Development Fund, Kotmale	2.9	-Do-		
(iii)	Capital grants from the European Economic Commission	3.58	Documents required for accounting for the amount as capital grants	Discussions will be held with the Mahaweli	
(iv)	Foreign Grants	5.73	-Do-		

(b)	Capital Reserve	14.16	-Do-	Authority of Sri Lanka in this regard, and further action will be taken accordingly.
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1.6 Payables

Audit Observation	Comments of the Management	Recommendation
(a) Audit fees had not been paid by the Company since 2018, and an amount of Rs. 1.28 million remained payable as audit fees as at 31 December 2025. Further, payable balances outstanding for more than five years amounted to Rs. 26.05 million, and no action had been taken to settle such balances.	Action will be taken to settle the outstanding amounts during the year 2026.	Necessary action should be taken to settle the outstanding audit fees promptly and to clear the payable balances that have been outstanding for more than five years.
(b) Even though salary increments amounting to Rs. 3.08 million that had remained payable for a long period, together with the related Employees' Provident Fund contributions amounting to Rs. 1.15 million and Employees' Trust Fund contributions amounting to Rs. 166,208, had been included in the financial statements, no action had been taken to settle these outstanding amounts.	Action will be taken to settle these outstanding amounts during the year 2026.	Action should be taken to settle the outstanding balances relating to salaries, Employees' Provident Fund contributions and Employees' Trust Fund contributions that have remained included in the financial statements for a prolonged period.

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

Reference to Laws, Rules and Regulations, etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 10(2) of Contributions amounting to Rs. 18.95 million	Employees' Provident Fund contributions	Comments had not been given.	Necessary action should be taken to

Fund Act, No. 15 of 1958	payable to the Employees' Provident Fund, together with a surcharge of Rs. 12.25 million, relating to 101 months during the period from January 2013 to December 2025, had not been paid as at the audit date of 18 March 2026.	settle the outstanding contributions promptly.
(b) Section 5(1) of Part II of the Payment of Gratuity Act, No. 12 of 1983.	Gratuity payments amounting to Rs. 1.32 million payable to three employees who had resigned from the Company in February 2020 had not been paid as at 31 December 2025.	Action will be taken to settle the outstanding gratuity payments during the year 2026. Action should be taken to settle the outstanding gratuity payments expeditiously.
(c) Section 102 under Part II of the Inland Revenue Act, No. 24 of 2017.	The Company had not been registered for income tax purposes.	It has been noted that necessary action will be taken to register the Company for income tax purposes. Action should be taken to register for income tax purposes.
(d) Public Enterprises Circular No 01/2021 dated 16 November 2021		
(i) Section 3.2 of the Operational Manual	Even though the recruitment procedure and remuneration structure applicable to all staff of public enterprises should be submitted to the Director General of the Department of Management Services for approval, with the recommendation of the line Ministry and the approval of the Board of Directors, the Company had not complied with this requirement.	It has been noted that it will be submitted during the year 2026. Necessary action should be taken to obtain the required approvals for the Scheme of Recruitment and Pay Structure in accordance with the provisions of the relevant circulars.

(ii) Section 2.3 of the Guidelines on Corporate Governance for State Owned Enterprises	The Action Plan had not been approved by the Board of Directors. Further, even though the Strategic Plan, Action Plan and Annual Budget were required to be submitted to the Director General of the Department of Public Enterprises through the Secretary of the line Ministry, the Company had not taken action accordingly.	It has been noted that the approval of the Board of Directors will be obtained during the year 2026.	Action should be taken to obtain the approval of the Board of Directors for the Action Plan, and the Strategic Plan, Action Plan and Annual Budget should be submitted to the Director General of the Department of Public Enterprises.
(f) Section 3.5 of the Public Enterprises Circular No. 02/2013 dated 11 September 2013.	Even though a gratuity liability amounting to Rs. 13.89 million had been identified, action had not been taken to deposit the amount in a separate account.	It has been noted that action will be taken during the year 2026 to assess the possibility of depositing the gratuity amount in a separate account.	Action should be taken to deposit the gratuity provisions in a separate account in accordance with the provisions of the relevant circular.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a loss of Rs. 850,395, compared to a profit of Rs. 9.77 million in the preceding year. Accordingly, a deterioration of Rs. 10.62 million in the financial results was observed. The main factor contributing to this deterioration was the decrease in the fair value of the biological assets inventory.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) According to the Articles of Association of the Company, the authorized share capital consisted of 5,000,000 shares of Rs. 10 each. However, only three	Discussions will be held with the Mahaweli Authority of Sri Lanka regarding the possibility of issuing the remaining shares, and further action will be taken during the year 2026.	Necessary action should be taken promptly to formally appoint the Board of Directors, including the Chairman, and to

shares had been issued to the initial directors, and those shares had been transferred to the Authority in 2023. Further, the Board of Directors of the Company had not been appointed by the Board of Directors of the Mahaweli Authority; instead, directors had been appointed from time to time by the Director General of the Authority. Moreover, no Chairman had been appointed to the Company from 2015 to date.

issue the remaining shares.

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| (b) | Even though fixed assets amounting to Rs. 9.9 million had been identified as unusable during the asset verification carried out in 2019, no action had been taken to dispose of those assets even as at 31 December 2025. Further, the Company had not taken action to formally take over four vehicles belonging to the Mahaweli Authority of Sri Lanka, with a total cost of Rs. 8.16 million, which were currently being used by the Company. | Action will be taken during the year 2026. | Necessary action should be taken promptly to dispose of the idle assets and to take over the vehicles belonging to the Mahaweli Authority of Sri Lanka that are being used by the Company. |
| (c) | The milk fat produced as a by-product of milk production was used as a main raw material in the production of ice cream and ghee. In calculating the cost of production of ice cream and ghee, the standard unit price used to determine the value of such | It has been noted that these adjustments will be disclosed in the final financial statements for the year 2026. | The information relating to the determination of the value of milk fat should be properly disclosed. |

milk fat had been increased from Rs. 400 to Rs. 1,000 with effect from February 2024. However, the basis for determining the revised price, the relevant approval, and the impact arising from the increase could not be ascertained during the audit.

3.2 Operating Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Due to the breakdown of the machine used to produce approximately 3,000 litres of ice cream annually, production activities had been discontinued since December 2023. However, no action had been taken to repair the machine even as at the audit date of 09 March 2026.	Action will be taken to purchase an ice cream machine during the year 2026.	Necessary action should be taken promptly either to repair the machine or, if it is to be disposed of, to dispose of it properly and purchase a new machine, thereby increasing ice cream production.
(b)	Although the deaths of 14 milking cows had been reported during the year 2025, the relevant report, together with the recommendations of the veterinary officers in the area and photographs taken at the relevant occasions, had not been submitted to the Board of Directors by the Losses Reporting Committee.	Action will be taken to report such matters commencing from the year 2026.	The relevant veterinary officer in the area should be informed promptly regarding the deaths of live animals, as appropriate, and necessary action should be taken to obtain the relevant reports.

3.3 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
There were instances where daily receipts at the Girandurukotte Farm exceeding Rs. 100,000 were retained in cash without being deposited into the bank. During the months of September, October and November 2025, an amount exceeding Rs. 2 million had been retained in cash in this manner.	Action will be taken to deposit the cash into the bank commencing from the year 2026.	Daily receipts should be deposited into the bank on a daily basis, and disciplinary action should be taken against officers who fail to discharge this responsibility. Further, the responsibility for carrying out proper supervision should also be assigned to the relevant officers.

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
(a) Even though the cattle sheds, goat sheds and other constructions built in 2014 and 2015 by System C of the Mahaweli Authority of Sri Lanka, with the objective of converting the Girandurukotte Farm into a livestock training centre, together with goods valued at Rs. 9.34 million, had been handed over to the Company on 08 February 2016, those assets had remained idle from the date of handover due to the absence of a specific plan or procedure for utilizing them. Further, 28 buildings belonging to the Girandurukotte Livestock Farm, which had been constructed in 1986, were in a completely dilapidated condition.	The Centre, which had been constructed based on the requirement of another party, was handed over to the Company in 2016, and the Company does not have the financial capacity to utilize these assets. Further, action will be taken to write off the 28 buildings during the year 2026.	A suitable mechanism should be established to utilize these assets effectively.
(b) Even though the Girandurukotte and Damminna Units had approximately 1154 acres of land, the Company had not effectively utilized such land for	Land had been provided to all the farmers who had requested land under the seasonal tax system.	Necessary action should be taken to use the land owned by the Company effectively

cultivation activities. Accordingly, only approximately 269 acres, representing 23 percent of the land owned by the Company, had been leased during the year 2025.

for its operational activities and to provide the remaining land to external parties under the seasonal tax system.

4. Accountability and Good Governance

4.1 Progress of Targeted Activities

Audit Observation	Comments of the Management	Recommendation
Even though the Memorandum and Articles of Association of the Company had identified the cultivation of farms, carrying out poultry farming activities on a wholesale and retail basis, producing feed required for poultry farming by farmers, breeding, selling, improving, processing and exporting cattle, pigs, poultry and other animals, and conducting business activities related to fruits and grains as its primary objectives, the activities of pig farming, broiler production and goat farming, which had been carried out on a limited scale, had been discontinued year by year since 2020. Accordingly, by 2025, all activities other than buffalo farming had been discontinued. Further, 26 of the buffaloes owned by the Company had been sold during 2025, and only 118 buffaloes remained as live animals of the Company at the end of the year.	Action will be taken to carry out these activities in the following year.	Prompt action should be taken either to achieve the objectives for which the Company was established or to restructure the Company by entering into an agreement with an external investor for public-private management, in accordance with the decisions of the Cabinet of Ministers made in respect of the Company.