Co-operative Wholesale Establishment – 2015

The audit of financial statements of the Co-operative Wholesale Establishment for the year ended 31 December 2015 comprising the financial position as at 31 December 2015 and the profit and loss and the statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No.38 of 1971 and Section 6 of the Co-operative Wholesale Establishment (amendment) Act No.12 of 1969. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with Sri Lanka Auditing Standards, consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the comprehensive income statement, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in Paragraph 2.2 of this report I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2. Comments on financial Statements

2.2.1 Going concern of the Corporation

As the Corporation had incurred losses continuously from the year 2000 to 2013, the net assets as at the end of the year 2013 had diminished to a minus balance of Rs.7,710,099,424. As a result of the revaluation of assets in the year 2014, a surplus of Rs.5,780,204,145 had arisen and as such the minus value of the net assets had decreased to Rs.2,764,039,908 in the year under review. However, as there were a long term bond liability of Rs.4,397,000,000 and a current liability of Rs.1,929,176,112 it was indicated that the continuous operation of the corporation without a Treasury or other government assistance would be uncertain.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Instead of accounting by identifying the overall effect of the "Gamata Sawiya Sathosa Badiya Mobile Marketing Vehicle Project, commenced in the year 2014, in maintaining separate accounts, the Corporation had recognized the difference of Rs.140,730,116 as income between the value of goods issued to mobile vehicles and the value of goods returned by them to the Corporation".

(b) The loan of Rs.275,000,000 given by the Treasury in the year 2006 for the purchase of commodities, had not been repaid. Instead of being shown it as a refundable loan, it had been included in the Restructuring Reserve.

(c) Instead of showing the audit fees of Rs.8,847,374 payable for the period from 1999 to 2010 and computing the amount of audit fees payable for the period from 2012 to 2015 as accrued expenses in the financial statements, only a sum of Rs.3,860,592 had been shown in the financial position under current liabilities as payable audit and tax consultancy fees.

(d) The value of Rs.38,843,286 included in cash in hand in the financial statements had not actually cash in hand. It included balances due to the Corporation in carrying out its business operations as well.

(e) It was revealed in the letter of the State Bank Manager dated 03 September 2014 that there was an import loan balance of Rs.155,058,221 in respect of a short term import loan obtained from a State Bank by the Corporation as at 30 June 2014, an accrued penalty of Rs.39,444,946 thereon and an accrued loan interest of Rs.188,975,005. Nevertheless, the loan balance and the interest relevant to this loan for the year 2015 had not been shown in the financial statements.

2.2.3 Unexplained Differences

Eventhough it was ensured in the financial statements of the Paddy Marketing Board for the year 2014 that a balance of Rs.462,589,308 was payable to the Paddy Marketing Board by the Corporation, only a sum of Rs.285,644,838 had been shown in the financial statements of the Corporation for the year 2014 as payable. Although a sum of Rs.71,454,575 had been shown in the financial statements of the Corporation for the year 2014 as receivable to the Corporation from the Paddy Marketing Board in respect of lease rent, rice project and others, any money whatsoever had not been shown in the financial statements of the Paddy Marketing Board as a payable balance. Action had not been taken to settle these differences even by 20 March 2017.

2.2.4 Lack of Evidence for audit

Due to non-availability of evidence in respect of the following transactions they could not be satisfactorily vouched or accepted in audit.

(a) Non-availability of age analysis, confirmation of balances, detailed schedules and stock verification reports in respect of 7 current assets accounts totalling Rs.497,545,836, six current and non-current liabilities accounts totalling Rs.9,959,816,324 and two revenue accounts balances totalling Rs.56,868,334 shown in the financial statements.

(b) Information and schedules to ensure the correctness of revenue amounting to Rs.111,675,694 shown in the financial statements of the year under review relating to the other companies of the Group and non-current assets amounting to Rs.16,020,571, current assets amounting to Rs.85,775,325, equity amounting to Rs.54,740,686 and current liabilities amounting to Rs.47,055,209 existed as at 31 December 2015.

(c) Specific information in order to identify 17 accounts balances totalling Rs.183,602,957 shown as payable under current liabilities.

(d) Non-availability of the particulars of loan balance and interest thereon for the year 2015 relating to a short term loan obtained from a State Bank by the Corporation.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The value of trade and other receivables as at 31 December of the year under review amounted to Rs.870,963,097. However, without taking action to recover a sum of Rs.389,467,293 representing 45 per cent therefrom, it had been shown in the financial statements as the provision for impairment.

(b) According to the financial statements of the Corporation for the year under review the amount payable to the Paddy Marketing Board for the purchase of rice was Rs.274,121,687 whereas the amount receivable to the Corporation from the Paddy Marketing Board as lease rent and others was Rs.72,986,018.

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

In terms of Section 2.2 (a) of the Co-operative Wholesale Establishment (Amendment) Act No.31 of 1991, the funds of the can be invested only in Public Companies. Contrary to that, two State Companies namely "Sathosa Economic Centre Services (Pvt) Ltd" and "Sathosa Construction and Engineering (Pvt) Ltd" had been established by investing a nominal share capital of Rs.10 per share and 4 officers who obtained salaries from the had been employed, therein.

2.5 Transactions without adequate authority

The Corporation had sold canned fish valued at Rs.8,660,782 in the previous 2 years on credit basis without proper approval. The corporation had failed to recover a sum of Rs.4,362,320 of it even by 20 August 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Corporation for the year ended 31 December 2015 had been a deficit of Rs.541,087,014 as compared with the deficit of Rs.310,874,332 for the preceding year. Accordingly, the deficit for the year under review had increased by Rs.230,212,682 as compared with the preceding year deprivation of income from converting paddy into rice project, decrease of other operating income by Rs.112,632,358 and increase of administrative expenditure by Rs.52,034,040 had mainly attributed to this deficit.

In analysing the financial results of the year under review and the preceding 4 years, the deficit of Rs.313,605,785 in the year 2011 had become Rs.541,087,014 in the year 2015 with fluctuations. In considering employee remuneration depreciation and taxation, the minus value of the contribution amounting to Rs.186,511,684 in the year 2011 had become a minus value of Rs.177,526,282 in the year 2015 with fluctuations.

3.2 Legal events instituted against/ by the Corporation

The following observations are made.

(a) Forty six cases had been filed by 8 institutions and 20 persons asking for compensations of Rs.35,815,071 by the end of the year under review and a sum of Rs.904,187 had been paid by the Corporation as compensation during the year under review.

(b) The Corporation had filed 10 cases against 6 institutions and 4 persons asking for a sum of Rs.82,781,016 and a sum of Rs.21,034,413 therefrom had been recovered.

4. Operating Review

4.1 Performance

As stated in the performance report of the Corporation for the year 2015 objectives and functions of the Corporation appear below.

(i) Supply of essentials to Public and Private institutions.

(ii) Supply of goods in wholesale and retail to general public.

(iii) Utilisation of Human and other resources efficiently and effectively.

(iv) Generation/ invention of adequate funds for the existence of the Corporation.

(v) Carrying out research and development activities to invent/ generate modernised goods.

Of these objectives, attention had not been paid in the year 2015 in respect of "Carrying out research and development activities to invent/ generate modernised goods "

4.2 Management Activities

The following observations are made.

(a) Market stalls and 32 buildings belonged to the Corporation had been vested in the Lanka Sathosa Ltd. on rent basis, but a valuation report had not been obtained from the government valuer for the building rent.

(b) The Corporation had vested assets assessed at Rs.54,722,228 in the Lanka Sathosa Ltd. A proper agreement to get the money thereof or to get shares of the company had not been reached even by 31 August 2016.

(c) The Corporation had invested a sum of Rs.9,923,710 in a private company in the year 1999. As this company incurred continuous. Losses any dividend whatsoever had not been received from the year 1999 to the year 2015.

(d) Although a sum of Rs.171,928,690 had been invested in the Sathosa Retail Company in the year 2002 by the Corporation, any dividend whatsoever had not been received. According to a court order, a liquidator had been appointed in the year 2007 and liquidation activities had been completed in the year 2013. The value of this investment had been shown in the financial statements as provisions for impairment.

4.3 Transactions of contentious nature

The money to be given for the construction of a school in Hasalaka by the Mahapola Trust Fund and the Department of Co-operative Development to the Sathosa construction and Engineering Company had been given through the Corporation. The reason for the intervention of the Corporation on these transactions effected between these government institutions had not been explained. Loans of Rs.26,285,661 had been granted to the Sathosa Construction and Engineering Company by the Corporation for this construction work but any benefit whatsoever had not been received by the Corporation for the period of that loan.

4.4 Uneconomic Transaction

The following observations are made.

(a) Despite salaries and allowances totalling Rs.3,244,869 had been paid in the year 2015 by obtaining the service of 4 Accountants by the Corporation, a sum of Rs.2,193,980 had been paid to a firm of Chartered Accountants for the preparation of financial statements from the year 2012 to 2015, on the approval of the Board of Directors.

(b) The “Gamata Saviya Sathosa Badiya Project” which had been commenced on 04 December 2014 by using 100 lorries with a 5 year Business Plan from 2014 to 2019 had become inactive since January 2015, and the Corporation had sustained a loss of Rs.65,859,217 as at 03 March 2016 from this project. However, action had not been taken to get bank 15 Lorries held in the custody of Project Assistants even by 31 August 2016.

4.5 Identified Losses

A surcharge of Rs.66,044 had to be paid relating to the 2 months of the year under review due to non-payment of contributions to the Employees Trust Fund on due dates.

4.6 Restructuring Transactions

Restructuring of the Corporation had been commenced in the year 2003 and the Commercial Banks had been agreed to settle a sum of Rs.4,397,000,000 from the loan amount of Rs.5,493,000,000 payable to 6 Commercial Banks as at 01 December 2003 and the Treasury Bonds to be matured in 13 years had been issued to the Commercial Banks in that respect.

Accordingly, a sum of Rs.4,597,000,000 had been shown in the financial statements as at the last date of the year under review as total liabilities payable to the Treasury, consisting of a sum of Rs.4,397,000,000 payable to the Treasury in respect of Treasury Bonds, including a sum of Rs.200,000,000 paid to the creditors of the Sathosa Retail Company and to the 3 Commercial Banks by the Treasury.

The Bond interest liability amounting to Rs.3,453,793,134 payable to the Treasury as at the last date of the year under review had been shown under non-current liabilities in the financial statements named as “Intersr payable for Sathosa Bonds”

Furthermore, the Management of the Corporation had failed to get a confirmation from the Treasury to ensure whether this Rs.200,000,000 from the payable amount of Rs.4,597,000,000 would be a receivable amount to the Treasury. As a sum of Rs.66,363,460 had been shown as "restructuring" under other creditors it is obvious that the transactions of restructuring had not been properly disclosed or made adjustments. This restructuring value had been shown in the financial statements of the year under review as "book keeping".

4.7 Personnel Administration

The following observations are made.

(a) The approved total number of posts of the Corporation was 316, consisting of 20 Management grade posts, 51 Management Assistants posts and 245 primary grade posts and the excess cadre and vacancies as at the end of the year under review were 104 and 31 respectively.

(b) As three salary increments and 2 increments had been given in one year and another year respectively to an officer who had been recruited in the year 2012, an overpayment of Rs.159,390 had been made during the year under review and the overpayments so made during the period from 2012 to 01 March 2016 was Rs.589,490.

(c) A recruitment had been made for a post of Working Director in the year 2011 for which no provision is made in the Act of in Corporation of the Corporation or any other law and not included in the approved cadre of the Corporation and salaries and allowances totalling Rs.5,781,732 had been paid to him during the period from 2011 to 31 March 2016.

4.8 Resources of the Corporation given to other Government Institutions

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Six officers had been attached to the service of subsidiary companies of the Corporation and to a Co-operative Society and a sum of Rs.1,526,400 had been paid to them as salaries and other remunerations during the year under review. Action had not been taken to get it reimbursed from the relevant institutions.

5. Accountability and Good Governance

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5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the closure of the year of accounts. However, the financial statements for the year under review had been presented for audit on 09 May 2016, but the draft annual report had not been presented.

5.2 Corporate Plan

In terms of Public Finance Circular No.01/2014 dated 17 February 2014, a Corporate Plan had been prepared to cover the period from 2013 to 2016 to achieve the vision and mission of the Corporation, but it had not been periodically reviewed.

5.3 Action Plan

The following observations are made.

(a) In terms of the Public Finance Circular No.01/2014 of 17 February 2014, the Action Plan had been prepared for the year under review. However, the Human Resources Plan, Loan Repayment Plan and the Internal Audit Plan had not been included therein.

(b) The progress reports enabling to examine the activities planned to be commenced and implemented during the year under review and other related information were not made available for audit.

5.4 Internal Audit

Although an Internal Auditor had been appointed, a sufficient subordinate staff had not been appointed and as such sufficient internal audit had not been carried out during the year under review. Meanwhile no any internal audit query or report had been submitted to government audit.

5.5 Budgetary Control

In comparing the estimated income and expenditure with the actual income and expenditure, variations from 15 per cent to 917 per cent were observed thus observing that the Budget had not been made use of as an effective instrument of management control.

5.6 Unresolved Audit Paragraphs

Unresolved Audit Paragraphs are as follows.

Reference to Audit Para	Paragraph
(a) 2011 – Paragraph 4.2	Misplace of electrical motors of 12 “Containers Machine” valued at Rs.5,097,445.
(b) 2011 – Paragraph 4.8	One hundred and forty rice processing machines valued at Rs.14,501,998 imported by the Corporation in September 2006 had been idle even by 13 September 2016.

(c)	2012 – 2.2.3 (e)	Action had not been taken to recover or adjust in the accounts a sum of Rs.71,561,640 receivable from the Lanka Sathosa Ltd. as annual lease rental and foreign Liquor Licences fees for the year 2011 even by the end of the year under review.
(d)	2012 – 4.3(b)	Construction of rice mills by incurring an expenditure of Rs.78,978,504 in 2 stores taken on rent basis from the Food Commissioner's Department without the approval of that Department.
(e)	2012 – 2.2.3 (d)	Even though the profit from sale of motor vehicles had been Rs.5,101,356, it had been shown in the financial statements as Rs.5,892,489 and as such the profit on sale of vehicles had been over stated in the financial statements by Rs.791,133.
(f)	2012 – 2.2.4 (a)	In the examination of Trial Balance of the year under review, debit balances totalling Rs.27,584,061,602 in 168 assets and expenditure accounts and credit balances totalling Rs.30,129,471,178 in 110 liability and revenue accounts had not been in agreeable with the financial statements.
(g)	2012 – 2.2.4 (b)	Even though a short term loan balance of Rs.207,050,943 was shown in the statement of financial position under the current assets named as TR Loan People's Bank, according to the balance confirmation letter sent by the Bank, that loan balance was stated as Rs.207,097,942.
(h)	2012 – 2.2.5 (a)	There was a risk of deprivation of revenue in relation to a price difference of Rs.18,450 in respect of 15,000 kg of total white sugar received to the packeting division up to 31 December 2012 and the shortage of packing materials of 23,514 packets or 170.119 kg. The Management had not taken any action whatsoever up to now in that regard.
(i)	2013 – 2.2.3 (a) iii	Revealing a difference of Rs.299,798,933 in 3 accounts balances in comparing the Trial Balance with the financial statements.

6. Systems and Control

Weaknesses in Systems and Control observed in audit had been informed to the Chairman of the Corporation for his awareness from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Control	Observations
(a) Accounting	(i) Non-use of code numbers for ledger accounts.
	(ii) Narrations of the journal vouchers not correctly written.
	(iii) Supporting documents relating to the voucher not properly attached thereto.
(b) Stock Control	Non-conducted the annual physical verification of stocks and non-identification of the present stock value.
(c) Recovery of rent income	Not taking appropriate steps to recover the arrears of lease rentals.
(d) Personnel Administration	Non-filling of vacancies.
(e) Legal Matters	As not maintained consecutive numbers by entering into agreements, the number of agreements entered into by the Corporation with external parties could not be identified.