

Co-operative Wholesale Establishment – 2016

The audit of financial statements of the Cooperative Wholesale Establishment and its subsidiaries for the year ended 31 December 2016 comprising the statement of Financial Position as at 31 December 2016 and the statement of financial performance, statement of changes in equity and statement of cash flows for the year then ended and the 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 Constitution 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 Cooperative Wholesale Establishment (Ammended) Act No.12 of 1969. My comments and observations, which I consider should be published with the Annual Report of Institute in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Responsibility of the Management for Financial Statements

Management is responsible for preparation and fair presentation of these intergrated 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 these financial statements based on my audit. I conducted my 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 adjustment might have been found necessary in respect of recorded or unrecorded items, and the elements making up the Statement of financial position, statement of profit and loss and other comprehensive income, statement of changes in equity and cash flow statement.

2. Finacail Statements

2.1 Disclaimer of Opinion - Group

Because of the significance of the matters described in paragraph 2.2 and 2.3 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordinly I do not express an opinion on these financial statements.

Disclaimer of Opinion - Corporation

Because of the significance of the matters described in paragraph 2.3 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 - Group

2.2.1 Lack of Evidence for Audit

Information and schedules were not presented to audit to be conformed income of Rs.175,229,224 expenditure of Rs.165,457,431 shown in the accounts for the year under review and non- current assets of Rs.125,058,856 , current assets of Rs.75,274,981 , equity of Rs.61,691,416 , non- current liability of Rs.968,346 and current liability of Rs.137,674,056 as at 31 December 2016 relating to the other companies of the Group.

2.3 Comments on Financial Statements - Cooperation

2.3.1 Going Concern of the Cooperation

The net assets of the Cooperation had deteriorated to a minus value of Rs.7,710,099,424 at the end of year 2013 due to the continuous loss from the year 2000 to the year 2013, and the minus value of net assets had decreased to Rs.2,764,039,908 in the year 2015 as a result of surplus of Rs.5,780,204,145 generated from the asset revaluation carried out in the year 2014. However, net assets of the corporation had become to a plus value of Rs.1, 388,648,519 due to the conversion of treasury bound valued at Rs.4, 397,000,000 issued by the General Treasury and shown as a liability in the financial statements up to the previous year, to the equity capital on the cabinet decision dated 02 November 2016.

2.3.2 Accounting Deficiencies

The following observations are made.

- a) A sum of Rs.16, 427,974 had been identified as the payable total interest as at 31 December 2016, for the short term loan obtained from a state bank by the corporation a number of years ago. However the interest relating to the year under review had not been identified and taken in to account under the financial cost of the statement of comprehensive Income.
- b) Actions had not been taken to refund the laon of Rs.275, 000,000 granted by the General Treasury in the year 2006 for purchasing commodities and it had been included into the restructural reserve instead of being shown as the refundable loan.
- c) Audit Fees payable for the period from 2012 to 2016 had not been calculated and taken in to accounts.

- d) A credit balance of " unidentified deposits " amounting to Rs.8, 684,772 had been shown under the cash and cash equivalents in the financial statements for the year under review and had been offset with the value of cash and cash equivalents thus the value of cash and cash equivalents relating to the year under review had been understated by the same amount.
- e) A sum of Rs.12, 628,486 payable to creditors and a sum of Rs.5, 760,978 receivable from debtors had been omitted from the accounts because the transactions for purchasing canned fish had not been entered in to ledger accounts properly.

2.3.3 Unexplained Differences

Although a sum of Rs.274,121,687 and Rs.78,231,544 had been shown as payable to and receivable from the Paddy Marketing Board, in accordance with the financial statements of the corporation for the year under review, according to the financial statements of the Paddy Marketing Board, the balance receivable from the corporation and the balance payable to the corporation were Rs.462,689,308 and Rs.1,202,897 respectively. Accordingly differences of Rs.188,567,621 and Rs.77,028,647 respectively were observed.

2.3.4 Lack of Evidence for Audit

The following observations are made.

- a) The following transactions could not be vouched or accepted satisfactorily in audit due to non – availability of evidence.
 - (i) Non availability of age analysis, balance confirmations, detailed schedules, stock verification reports relating to 13 balances of current assets amounting to Rs.483,339,255 balances of 2 current liability account amounting to Rs.251,776,979 balances of 6 revenue accounts amounting to Rs.2,696,357,212 and balances of 2 expenditure accounts amounting to Rs.2,456,454,089 shown in the financial statements.
 - (ii) balances not being specifically identified or age analysis not being submitted relating to 17 payable account balances amounting to Rs.178,541,559 which had been shown under the current liabilities of the financial statements for the year under review.
 - (iii) Payment vouchers, Invoices, good received notes to confirm the balance of Rs.252,042 shown in the office equipment account.
 - (iv) Information to confirm the accuracy of journal entries entered in to ledger accounts relating to fixed assets amounting to Rs.1,892,760 and payment vouchers to confirm the payments.

- (v) Essential supportive documents for certification of payment to the relevant voucher when paying outstanding balance of Rs.5,749,080 to the suppliers of canned fish.
 - (vi) Physical verification reports in respect of common stock named building Department Stock amounting to Rs.4,143,032 shown under the current assets of the financial position statements.
- b) Although balance confirmations had been called from 48 debtor balances amounting to Rs.12,679,243 as at the end of the year under review, confirmations had been received only for 3 balances amounting to Rs.8,358,827.

2.4 Receivable and Payable Accounts

The following observations are made.

- a) Actions had not been taken to recover a sum of Rs.426,732,845 represents 56 percent of the trade and other receivables of Rs.758,355,094 as at 31 December of the year under review, and had been shown in the financial statements as impairment provision.
- b) Four buildings had been leased out by the corporation in the years 2015 and 2016 without entering into agreements between the two parties. However, any lease rent had not been recovered up to 31 March 2018 and the lease rent which was not recovered relating to the year under review was Rs.5,367,960.
- c) Transport invoices amounting to Rs.136,772,376 had been issued relating to 50 instances for supplying of transport service to the Lanka Sthosa Ltd during the year 2016, and the amount recovered as at 31 January 2018 was Rs.127,939,218. Accordingly, the amount receivable for the year 2016 was Rs.8,833,158.
- d) Actions had not been taken to recover the short term loan of Rs.1,000,000 issued to the Consumer Service Authority in the year 2011 and interest thereon even up to 14 September 2018.
- e) Buildings had been rented out to another corporation in the year 2015 without entering into an agreement, and recovering of Rs.10,984,800 was uncertain due to non-receiving of the down payment and lease rent relating to the years 2015 and 2016.

2.5 Non compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules, Regulations and Management decisions

Non - Compliance

- a) Section 2.2 (a) of the co-operative wholesale Establishment Act No. 31 of 1991
- Although the money of the corporation should be invested in public companies, contrary to that two Public Companies had been established under the name of Sthosa Economic Center Service (pvt) Ltd and CWE Construction and Engineering (pvt) Ltd for a nominal investment of Rs.10 per share.
- b) Sub section 3.17.1 of the Chapter xxiv the Establishment Code of the Democratic Socialist Republic of Sri Lanka.
- Any officer working under the control of the main debtor could not be accepted as a guarantor of the main debtor. Violating this provisions, Two officers working under the main debtor had been adopted as guarantors for the loan of Rs.50,000 obtained by a female officer and the corporation had accepted them as guaranters and the loan had been granted to her.
- c) Declaration of Assets and Liabilities Law No.01 of 1975 ammended by the Act No.79 of 1988
- Although the assets and liabilities should be declared annually by the staff officers of public corporations, evidence had not been included in files subject to sample audit relating to 07 staff officers of the corporation to prove that said annual declarations had been submitted.

2.6 Transactions not supported by an Adequate Authority

Canned fish amounting to Rs.8,660,782 had been sold by the corporation to two private institutions in previous two years without an approval. The corporation had failed to recover a sum of Rs.2,732,120 out of that amount even up to 31 March 2018.

3. Financial Review

3.1 Financial Results

According to the financial statements presented for the year ended 31 December 2016, the financial result of the corporation was a deficit of Rs.504,948,375 as compared with the corresponding deficit of Rs.541,087,014 for the previous year, the deficit of the year under review had decreased by Rs.36,138,639. Increase of other income of the corporation by Rs.31,088,977 had mainly affected to the decrease of the above deficit.

In the analysis of the financial results for 04 preceding years and the year under review, the deficit existed in the year 2012 amounting to Rs.674,802,751 had become to Rs.504,948,375 in the year 2016 with fluctuations. However, considering the adjustments for employees remuneration, taxes and depreciations, the minus contribution of Rs.482,495,559 for the year 2012 had decreased up to minus amount of Rs.120,424,702 in the year 2016 with fluctuations.

3.2 Legal cases filed against to the Corporation and filed by the corporation

The following Observations are made.

- a) Fiftyfive cases had been filed against to the corporation up to the end of the year under review, requesting compensation of Rs.89,385,920 and a sum of Rs.6,524,020 had been paid by the corporation as compensation during the year under review in this regard.
- b) The corporation had filed 14 cases requesting a sum of Rs.106,388,058 against to 8 institutions and 4 individuals and a sum of Rs.24,474,886 had been recovered out of that,during the year under review.

4. Operating Review

4.1 Performance

4.1.1 Operating and Review

The following Observations are made.

- a) Attention had not been paid to fulfil the objective of “carry out researches and development activites for generating / origning of Pleistocene goods” as mentioned in the progress report of the corporation for the year under review.
- b) The following observations are made in connection with the progress of the activities included in the action plan for the year under review.
 - (i) Although it had been planned to import 15 essential food items during the year under review, only 2 food items had been imported in the year 2016. Further it had been planned to identify 04 new food items for sale and to obtain tax relief. However, only 01 food item had been identified and obtained tax relief during the year under review.
 - (ii) Although it had been planned to restore 04 stores during the year under review, the number of stores restored was 02.
 - (iii) Although it had been planned to increase the capacity of grinding raw rice in rice mills up to 24,300 metric tons during the year under review, any improvement had not been occurred in the capacity of grinding raw rice during the year under review. Further, it had been planned to purchase 2,000 metric tons of raw rice the amount of raw rice purchased during the year was 1,270 metric tons.

- (iv) Although it had been planned to earn rent income by converting the premises at Rajagiriya belong to the corporation to a mixed project or trade center, actions had not been taken even to commence those activities. Further, it had been planned to convert the land situated at D.R.Wijewardena Mawatha to a dual objective project and to earn rent income. However, those activities had not even been commenced.
- (v) Although it had been planned to earn a sum of Rs.1,050,000 during the year under review by highering the auditorium of the corporation, only a sum of Rs.603,012 had been earned as income, out of that income, a sum of Rs.257,189 had been remained as receivable even up to 25 April 2017.
- (vi) Rent income of Rs.214, 000,000 had been planned to be earned highering old buildings of the corporation after modernization during the year under review. However, any old building had not been renovated during the year under review.
- (vii) Although it had been planned to earn a sum of Rs.15, 000,000 by highering sathosa fourth floor during the year under review, the amount earned during the year was only Rs.6, 200,000.

4.2 Management Activities

The following observations are made.

- a) Assets in the estimated value of Rs.54,722,228 had been handed over to the Lanka Sathosa Ltd by the corporation. Nevertheless, it had not entered in to a proper agreement for obtaining money or obtaining shares of the company even up to 31 March 2018.
- b) Although a sum of Rs.9,923,710 had been invested in a private company in the year 1999 by the corporation, any dividance had not been received from the year 1999 to 2017 due to incurring continuous losses by the said company.
- c) Although more than 95 per cent of the income of packing section depend on the Lanka Sathosa Ltd, the two parties had not entered in to an agreement for supplying of services and receiving money. Further attention had not been paid by the management to create other alternatives without being remained the income of the packing section of the corporation on one institution.
- d) Buildings and stores of the corporation are installed in areas with high commercial value in Sri Lanka. Considering 08 buildings and stores complex as a sample, the annual lease rent income which had lost to the corporation was Rs.245, 037,108 due to attention not being paid to carry out maintenance properly and to lease as blocks at the market value in order to be obtained maximum benefit from stores and buildings remained idle.

- e) Thirty six plots of property belong to the corporation had been leased out to Rs.15, 885,376 to various institutions without being entered in to a proper agreement.
- f) Ninety nine lorries which had been received on finance lease valued at Rs.105,187,500 for the project “ Gamata Sawiya Sathosa Budiya” had been handed over to the leasing company during the year under review. However, the effect which can be occurred to the corporation relating to the financial profit or loss had not been disclosed in the financial statements obtaining confirmation from the leasing company or by a self evaluation.
- g) A sum of Rs.5, 169,972 had been paid to two suppliers using the same purchase order number in the settlement of outstanding balances relating to purchase canned fish.

4.3 Uneconomic transactions

The “Gamata Sawiya Sathosa Budiya” project commenced on 04 December 2014 with a five year business plan from the year 2014 to 2019 using 100 Lorries was inactivated after January 2015 and the loss occurred as at 03 March 2016 to the corporation by this project was Rs.65, 859,217. Even though the project was inactivated, actions had not been taken to get returned the lorry which remained under the custody of a project assistant even as at 31 March 2018.

4.4 Staff Administration

The following observations are made.

- a) The approved cadre of the corporation was consisted with total 320 posts as 22 posts of management grade, 51 posts of management assistants level and 247 posts of primary grade and the number of extra employees was 242 and number of vacancies was 31 as at 31 March 2018.
- b) Salaries had been over paid by Rs.159,390 during the year under review because 03 salary increments in the year 2013 and 02 salary increments in the year 2014 had been granted to an officer recruited in the year 2012. The amount overpaid from the year 2012 to 01 March 2016 was Rs.589,490.
- c) An officer had been recruited in the year 2011 to the post of Acting Director which was not included in the approved cadre and the provision not being made in the Act incorporated the corporation or any other law, and a sum of Rs.5,781,732 had been paid as salaries and allowances from the year 2011 to 31 March 2016.

4.5 Resources of the corporation released to other Government institutions

Fixed assets valued at Rs.94, 300 had been released to the line Ministry by the corporation contrary to the Section 8.3.9 of Public Finance Circular No.PED 12 dated 02 June 2003.

4.6 Vehicle Utilization

Six motor cycles removed from use and a tractor and a taylor without being repaired had been remained at the transport division of the corporation. Actions had not been taken as per the terms of the Public Finance Circular No.2/2015 dated 10 June 2015 regarding those vehicles.

Further 03 vehicles attached to the corporation on temporary basis by the Ministry of Industry and commerce had been parked at the transport division over a long period due to an accident taken place. Actions had not been taken to repair and use those vehicles or to hand over to the Ministry of Industry and commerce.

5. Accountability and Good Governness

5.1 Presentation of Financial Statements

According to the Section 6.5.1 of the Public Enterprises Circular PED/12 dated 02 June 2003, financial statements of the corporation should be submitted to audit within 60 days after the close of the accounting year. However, financial statements for the year under review had been presented to audit on 18 January 2018 and the draft annual report had not been presented.

5.2 Coporate Plan

Although a coporate plan had been prepared for the period from the year 2013 to the year 2016 in order to fulfil the vision and mission of the corporation as per the Public Finance Circular No.01/2014 dated 17 February 2014, it had not been timely reviewed.

5.3 Action Plan

Although the action plan had been prepared relating to the year under review as per the Public Finance Circular No.01/2014 dated 17 February 2014, the human resources plan and the internal audit plan had not been included therein.

5.4 Budgetory Control

Variations were observed in a range from 105 per cent to 1,066 per cent when comparing the estimated income and expenditure with the actual income and expenditure thus indicating that the budget had not been used as an effective instrument of management control.

5.5 Unresolved Audit Paragraphs

Unresolved Audit Paragraphs are given below.

Reference to Audit Report -----	Paragraph -----
a) Paragraph 4.2- 2011	Electric Motors of conveyor machines valued at Rs.5,097,445 being misplaced.
b) Paragraph 4.8- 2011	The number of 140 rice processing machine valued at Rs.14,501,998 imported in September 2006 by the corporation being remained idle even up to 31 March 2018
c) 2012 -2.2.3 (e)	Actions not being taken to recover or adjusted to the accounts a sum of Rs.71,561,640 receivable from the Lanka Sathosa Ltd as liquor licences and annual lease rent for the year 2011.
d) 2012- 4.3 (b)	Being construction of rice mills incurring a sum of Rs.78,978,504 in two stores taken on the lease base belong to the food commissioners department without obtaining the approval of the Department of food.
e) 2012-2.2.3 (d)	Overstated the profit on sales of vehicle amounting to Rs.791,133 in the financial statements as stating that the profit on sales of vehicle as Rs.5,892,489 instead of the real profit of Rs.5,101,356.
f) 2012 - 2.2.4 (a)	When examination Trial balance for the year 2012 debit balances totaling Rs.27,584,061,602 relating to 168 assets and expenditure accounts and credit balance totaling Rs.30,129,471,178 relating to 110 liability and revenue accounts not being tallied with the financial statements.
g) 2012 - 2.2.5(a)	Actions not being taken relating to a difference of charges of Rs.18,450 in connection with 15,000 kilograms of white sugar received to the packing section out of the total amount of sugar as at 31 December 2012 and relating to the loss of income in connection with shortage of 23514 packets or 170,119 kilograms even up to 31 March 2018.
h) 2013 -2.2.3 (a) iii	A difference of Rs.299,798,933 being observed in 03 accounts items when comparing the Trial balance with financial statements.

6. Systems and Controls

Deficiencies observed in audit had been brought to the notice of the Chairman of the corporation from time to time. Special attention is needed in respect of the following areas of control.

Systems and Controls -----	Observations -----
a) Accounting	(i) Codes not being used for ledger accounts. (ii) Narrations not being used accurately for journal vouchers (iii) Supporting documents not being attached with the vouchers properly.
b) Recovering of lease rent income	(i) Adequate actions not being taken to recover the outstanding lease rent. (ii) Not being entered in to lease agreements and actions not being taken as per the agreements.
c) Control of Purchasings	(i) A responsible officer not being signed in stock receipts. (ii) Certain guidelines of the procurement guideline not being followed.
d) Maintaining Registers	Fixed assets register not being updated properly.
e) Personal Files	(i) A letter not being obtained from the officer to confirm that the appointment letter had been received and the appointment was taken over under the rules and conditions mentioned in that letter. (ii) Medical reports not being obtained and included in personal files for newly recruited officer. (iii) Aaths not being taken from newly recruited officer as per the sub section 07 of the constitution within a month. (iv) History sheets not being maintained.