

Co-operative Wholesale Establishment – 2017

The audit of financial statements of the Cooperative Wholesale Establishment (Corporation) and its subsidiaries (Group) for the year ended 31 December 2017 comprising the statement of Financial Position as at 31 December 2017 and the statement of profit or loss and other comprehensive income , 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 (Amended) Act No.12 of 1969. The report on the transactions related to the Corporation has been tabled in Parliament on 28 November 2019 in three languages due to delay in financial statements. 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 Responsibility of the Management for the Financial Statements

Management is responsible for preparation and fair presentation of these consolidated 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 the 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 Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1. Qualified Opinion

In my opinion except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of financial position of the Cooperative Wholesale Establishment and the group including its subsidiaries as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2. Comments on Financial Statements

2.2.1 Noncompliance with Sri Lanka Accounting Standards

LKAS 16 :- Property Plant and Equipment

- (a) The residual value and the useful life of buildings, building improvements on leasehold lands , machinery, motor vehicles, furniture and fittings, office equipment and computers and computers accessories with a written down value of Rs. 590,999,051 as at 31 December 2017 had not been reviewed.
- (b) The carrying value of 01 machinery, 69 motor vehicles, 80 office equipment and 120 computers and computer accessories which were fully depreciated and still in use had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The inventory balance as at 31 December 2017 had been overstated by Rs. 4,143,032 due to a stock of building materials with the same amount which was not physically in the possession of the Corporation has been shown under the closing stock in the financial statements of the year under review.
- (b) The cash and cash equivalents had been understated by Rs. 8,684,772, as the direct remittances received to the bank account of the Corporation during the year under review had been shown in the financial statements of the year under review by deducting from the cash and cash equivalents instead of identifying and crediting the same to the relevant accounts.
- (c) An amount of Rs. 121,708,711 had been set off for a share contribution of a company against the cumulative rental value of Rs.66,986,483 for the buildings provided by the Corporation to the company on lease basis during the period from the year 2005 to year 2011 and the value of Rs. 54,722,228 of fixed assets provided by the Corporation for the use of the company. Even though , out of this value, Rs.98,909,871 which shares had not been allotted to the Corporation up to year under review had been stated as an advance for investment in the financial statements under long term assets, the relevant company had not agreed with the value and the provisions in connection with the matter had not been made in the financial statements of the company.
- (d) The value of lands and investment properties had been overstated by Rs. 206,600,000 as the value of the land where the head office of the Corporation and a building leased out to a private company are located was accounted as Rs. 2,621,600,000 though the revaluation amount of the land was Rs. 2,415,000,000.
- (e) The value of buildings in the financial statements had been understated by Rs. 2,393,000 as the value of 04 buildings was accounted as Rs. 1,615,100 though the revaluation amount of the buildings was Rs. 4,008,100.

- (f) A sum of Rs. 12,600,000 paid for purchasing of a building under Condominium Property which the ownership had not been transferred to the Corporation even as at 31 December 2017 had been accounted as buildings.
- (g) The balance of the building improvement account had been understated by Rs. 44,075,520 as the value of 15 items related to improve a building of the Corporation with a revaluation amount of Rs. 112,943,520 was accounted as Rs. 68,868,000.
- (h) A DIMO lorry belonging to the Corporation with a written down value of Rs. 407,292 which was decaying on the road and being used by an outside party to run a shop had been shown under the motor vehicles in the financial statements.

2.2.3 Unavailability of evidences for the Audit

A difference of Rs. 2,091,584 was observed between the amount received by the bank by auctioning 99 motor vehicles obtained by the Corporation from a state bank under a leasing facility and the amount which was accounted and evidences were not presented to the audit to confirm the difference.

2.2.4 Preparation of Consolidated Financial Statements

Unaudited financial statements of the subsidiaries, CWE Economic Centers (Pvt) Ltd. and CWE Construction and Engineering (Pvt) Ltd. had been used in preparation of the consolidated financial statements of the Co-operative Wholesale Establishment.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Corporation for the year ended 31 December 2017 was a surplus of Rs. 106,091,470 against the deficit of Rs. 504,948,375 for the previous year. Therefore the deficit of the year under review had decreased by Rs. 611,039,845 compared to the previous year. The decrease in the loss of the transport section of the Corporation by Rs. 37,287,545, the profit of Rs. 349,582,016 earned from the projects implemented during the year and the reduction of financial expenses by Rs. 321,434,899 had mainly affected to the decrease of the above deficit.

3.2 Working Capital Position

The current liabilities of the Corporation which exceeded the current assets at the end of the year under review were Rs.758, 230,251 and as a result, the Corporation's ability to meet its liabilities through its assets remained uncertain. The main reason for this situation was the payables for special projects and bank loan balances amounting to Rs. 7,687,816,732.

3.3 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 19 May 2020 and the draft annual report had not been presented.