

Co-operative Wholesale Establishment and its subsidiaries - 2020

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of financial statements of the Cooperative Wholesale Establishment (Corporation) and its subsidiaries (Group) for the year ended 31 December 2020 comprising the statement of Financial Position as at 31 December 2020 and the statement of profit and loss and other comprehensive income , statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements , the summary of significant accounting policies 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report. I do not express an opinion on the accompanying financial statements of the Corporation and its subsidiaries. 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

I do not express an opinion on the significance of the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my Disclaimer of opinion.

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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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 Corporation.

1.4 Responsibilities of the auditor for the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation,
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Noncompliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(i) LKAS 16 :- Property Plant and Equipment		
<p>-----</p> <p>(a) According to the paragraph 51 of the Standard, the residual value and the useful life of an asset should be reviewed at least at each financial year end and if expectations differ from previous estimates, the change should be accounted as a change in an accounting estimate in accordance with LKAS 8. However, the residual value and the useful life of buildings, building improvements on leasehold lands , machinery, motor vehicles, furniture and fittings, computers accessories ,tools and equipment and office equipment of the Corporation with a written down value of Rs. 458,337,881 as at 31 December 2020 had not been reviewed.</p>	<p>The properties belonging to the Corporation are spread in different areas, and it is practically difficult to verify the assets such as furniture, computer equipment etc. every year and make the relevant confirmations. The relevant confirmations can be disclosed in the financial statements after the asset valuation in 2021.</p>	<p>The standard should be followed.</p>

<p>(b) According to the paragraph 79 (b) of the Standard, although the carrying value of property, plant and equipment that is fully depreciated but still in use should be disclosed in the financial statements, the carrying value of 01 building 65 machineries 2455 furniture and fittings 116 motor vehicle, 42 tools and equipment, 309 office equipment and 413 computers and accessories which were fully depreciated and still in use had not been disclosed in the financial statements.</p>	<p>. The cost of fully depreciated fixed assets of the group including the Corporation has been shown as Rs.349, 095,841/- under notes to the account No. 9.3 and as mentioned there, the cost of fully depreciated assets of the Corporation has been shown as Rs.348, 956,141/-.</p> <p>Necessary measures have been taken to disclose the carrying value of these assets in the financial statements after the asset revaluation in 2021.</p>	<p>The standard should be followed.</p>
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(ii) LKAS 37 :- Provision for Contingent Liabilities and Contingent Assets

According to the paragraph 31 of the Standard,, although contingent assets should not be recognized in the financial statements, the Corporation had recognized an amount of Rs.25,900,236 which is expected to be received from a pending litigation relating to stock misplacement under the imported rice project as an asset in the financial statements

The value of the misplaced rice bags in the rice project is shown in the accounts according to the cost calculated in relation to the written notification given by the general manager based on the report given by the internal audit department of the Corporation. This value is shown in the financial statement as a balance receivable from a pending litigation as there is currently a case in the Criminal Investigation Department for this. Therefore, it is reflected in the financial statements under contingent assets.

The standard should be followed.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) The Corporation has not made financial contribution for the share contribution of Lanka Sathosa Limited and for that, an amount of Rs.121,708,711 had been offset against the accumulated rent value of Rs. 66,986,483 for the buildings provided by the Corporation to Lanka Sathosa Limited from the year 2005 to 2011 on lease basis and an amount of Rs. 54,722,228 for fixed assets provided by the Corporation for the use of outlets and warehouses of Lanka Sathosa. To offset that amount, a sum of Rs.22,798,840 allocated by Lanka Sathosa Limited had been shown as investment in the financial statements of the year under review and the remaining Rs.98,909,871 had been shown as advance for investment under long-term assets in the financial statements. However, Lanka Sathosa Limited had not agreed with the value and the provisions in connection with the matter had not been made in the financial statements of Lanka Sathosa Limited.</p>	<p>The approval has been received by the Cabinet Decision No. 11/1353/540/017 for the issue of shares considering the value of inventory items handed over to Lanka Sathosa by the Co-operative Wholesale Establishment and the accumulated arrears of rent for the period up to 31.03.2011 for fixed assets (warehouses and shop buildings) given on leasehold basis as capital invested by CWE to Lanka Sathosa.</p> <p>As Lanka Sathosa has issued shares amounting to Rs.22,798,840/- to CWE as per the above mentioned Cabinet decision, requests have been made to that institution on several occasions to issue the remaining outstanding shares as well. Not responding to the same and non-performance of accounting is observed as a negligence of the Cabinet decision.</p>	<p>An amount which has not been agreed by an external party should not be recognized in the financial statements as an advance for investment.</p>
<p>(b) Although the revalued value of the land where the head office of the Corporation and Sathosa Motors located is Rs.2,415,000,000, due to the accounting of its value as Rs.2,621,600,000, the value of the land and investment property</p>	<p>All these assets have been revalued in the year 2021 and accounted from the year 2021 onwards accurately.</p>	<p>The revalued amount of the asset should be accounted.</p>

- had been overstated by Rs.206,600,000
- (c) The value of the buildings had been understated by Rs.2,355,200 in the financial statements due to accounting of a warehouse situated in Matara with 2944 square feet as Rs.1,177,600 even though the revalued value was Rs.3,532,800. Accordingly, the depreciation related to this asset for the year had been understated by Rs.306,176. -do- -do-
- (d) The balance of the building improvement account had been understated by Rs.44,075,520 due to the accounting of 15 items related to the development of a building at Higurakgoda with a revalued value of Rs.112,943,520 as Rs.68,868,000. Accordingly, the depreciation value of the year had been understated by Rs. 1,763,021 and the balance of provision for depreciation had been understated by Rs. 10,576,125. -do- -do-
- (e) Interest income receivable for the year under review for fixed deposits and term deposits amounting to Rs. 1,090,162 had not been accounted . The fixed deposit amounting to Rs.1,100,000/- opened in the year 2015 was encashed on 15.08.2022 and re-invested in a fixed deposit account. Correct receivable interest income for the year should be accounted. At that time a sum of Rs.365,636.98 has been given to us as the total interest received for this deposit. This has been correctly accounted in the year 2022 as Rs.31,048.50 for the year 2022 and Rs.334,588.48 for the year 2015 to 2021.
- (f) As a result of accounting the amount of Rs. 3,755,520 received from the sale of 61,108 kg of unusable rice related to the local rice project in the year Rice sold as animal feed was identified as other income in this project and it has been removed from this project and depicted separately. The profit of this project Income should be accounted correctly.

- under review as another income of the Corporation without accounting as an income related to the local rice project, the loss of the local rice project had been overstated by the same amount.
- has been presented in the accounts of the year 2021 by correcting the column prepared for the previous year.
- (g) The balance of rent receivable had been understated by Rs. 8,688,617 in the financial statements due to deduction of unidentified deposits amounting to Rs.8,684,772 from the rent receivable balance in the year under review and the negative balances amounting to Rs 3,845 included in the said balance. This amount has been removed from the rent receivable balance and shown in the financial statements as the said amount has not been received as trading income and as the balances to be received for the previous years are shown in the rent receivable balances . Direct remittances received to the bank current account should be identified and recorded in the correct accounts.
- (h) As the bonuses amounting to Rs 367,200 paid in respect of previous year was accounted as an expense in the year under review, the expenses and retained earnings of the year under review had been overstated by the same amount. An arrears bonus amounting to Rs. 367,200 paid for the previous year is included in the bonus account of the year 2020. A provision has not been made for this in the year 2019 and considering the materiality of the transaction, it has been accounted as an expense in the current year. Expenses paid in respect of the previous year should not be recognized as expenses in the year under review.
- (i) It was observed that the cash balance of Rs.3,129,264 carried forward from 2015 to the year under review does not exist physically. Detailed information regarding this is unable to find . However, the audit and management committee will be informed in this regard in the future and further action will be taken according to the instructions given there. The cash balances shown in the financial statements should be physically exist.
- (j) As the credit balances aggregating Rs. 1,139,783 related to 13 regional offices are included in the balance of Cash and Cash Equivalents , the balance of cash and cash equivalents had been understated by the same amount. These ledger accounts will be checked and corrective actions will be taken in the year 2021. Credit balances included in the Cash and cash equivalents should be analyzed and the correct balances should be shown in the financial statements.
- (k) Due to the matter that an amount of Rs. 2,280,006 to be removed This error has been corrected and accounted in the year 2021. The correct accounts should be adjusted in case

from Value Added Tax output account had been removed from the transport income account on rectification of an accounting error in respect of a canceled sales invoice relating to transport income, the transport income had been understated by the same amount.

of correcting errors.

- (l) The loss of Rs. 72,409,444 of the transport division of the Corporation which was identified as an cost center had been shown as a profit of Rs. 10,163,275 in the financial statements of the year under review as the employee wages of the transport division and the cost of fuel related to the vehicles used to earn transport income amounting to Rs. 57,511,257 and Rs. 25,061,462 respectively had not been taken in consideration in calculating profit/loss.

This presentation error has been corrected and presented in the 2021 financial statements.

Profit/loss of cost centers should be recognized correctly.

- (m) The loss of Rs.16,014,339 in the special Covid operations project implemented in the year under review had been shown in the financial statements as a balance receivable without specifically identifying the party to be recovered. Furthermore, the interest income of Rs.1,193,128 received by banking the sale proceeds of the project had not been taken into account in calculating the loss of the project.

This adjustment has been made as directed by the Board of Directors and the Audit and Management Committees to account for the loss in an account receivable until the loss is recovered from the respective parties If the loss of this transaction occurred in the year 2020 was accounted to the profit and loss account, it may not be possible to take actions according to the decision of the Board of Directors and the decision of the Audit and Management Committee as the loss is settled in the year 2020. The necessary steps can be taken to recover this amount once the parties responsible for this loss are identified.

Losses should not be accounted as receivable balances without specific identification of the party to be recovered from..

- (n) The receivable balances and payable balances at the end of the year under review had been understated by Rs. 33,149,135 and Rs.21,033,488 respectively due to the existence of minus balances in certain debtor balances and creditor balances. These balances are the balances that buyers have paid more for purchasing of rice in the years of 2017-2019. The actions have been taken to obtain necessary approvals to separate after recognizing the balances as income and make the adjustments in future financial statements. This information has been submitted to the Audit and Management Committee and further arrangements are being made as per the instructions given there. Creditor balances and debtor balances shown as minus balances should be analyzed and the correct balances should be shown in the financial statements.

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding record Rs.	Difference Rs.	Management Comment	Recommendation
Rent income	265,489,302	258,585,967	6,903,335	Instructions were given to submit correct documents from the year 2021 onwards.	The value as per financial statements should be tallied with the value as per corresponding reports.
Amount due from Lanka Sathosa Company to the Corporation	2,290,445,474	1,924,384,456	366,061,018	Although, balance confirmation letters were sent to Lanka Sathosa Company, they have not sent a reply to the Corporation. Therefore, it is not possible to confirm the balance. It has been advised to get	The value as per financial statements should be tallied with the value as per corresponding reports.

balance
confirmations and
reconcile in the
next accounting
year.

1.5.4 Preparation of Consolidated Financial Statements

Audit Issue	Management Comment	Recommendation
<p>(a) The financial statements of the subsidiary companies of CWE Securities and General (Pvt) Ltd. and CWE Construction and Engineering (Pvt) Ltd. which were not approved by the Board of Directors and were not audited had been used for the preparation of the consolidated financial statements of the Corporation.</p>	<p>CWE Securities and General (Pvt) Ltd. has been informed to obtain the approval of the board of directors and submit the financial reports. Therefore, steps have been taken to prepare the consolidated financial statements after obtaining the approval of the Board of Directors.</p>	<p>The accounts of the subsidiary companies approved by the board of directors should be used for the preparation of consolidated financial statements.</p>

1.5.5 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
<p>The total liabilities excess to the total assets of the Corporation had been Rs. 2,941,269,573 and the current liabilities excess to the current assets had been Rs. 1,089,127,686 at the end of the year under review, due to which the ability of the Corporation to meet its liabilities through its assets and its ability to continue without providing treasury provisions was in a position of uncertainty.</p>	<p>Agreed. The liabilities of the Corporation have been increased compared to the assets due to the loan obtained from the People's Bank for the imported rice project and the interest amount accrued thereon. The year 2021 onwards, a part of this loan amounting to 3.6 billion and the interest amount is given to the Corporation from the Treasury through the Ministry, and, the amount has been continuously paid to the People's Bank from July 2021 up to now. In addition Lanka Sathosa has arranged to pay Rs. 25 million each from September 2022 for the</p>	<p>The Corporation should maintain an asset position capable of meeting its liabilities.</p>

amount payable for rice purchased by Lanka Sathosa to settle the remaining loan amount of Rs. 2.1 billion. We expect that we will be able to properly manage the assets and liabilities of the institution due to the reduction of this loan amount and the asset revaluation that take place in the year 2021.

1.5.6. Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommend ation
(i) Balance due from a legal case	25,900,236	Documents to confirm the value	As there is currently a case in the Criminal Investigation Department for this purpose, this value is shown in the financial statements as the balance due from a case.	The relevant evidence should be presented to the audit
(ii) Payable to Treasury				
- Settlement of Loans	98,718,402	Documents to confirm the value	A confirmation letter was requested from the People's Bank in this regard and as soon as the confirmation is received, it will be forwarded to the audit.	- do
- Restructuring of loans	275,000,000	Documents to confirm the value	CWE finance division does not have the documents to confirm the value	The documents to confirm the value should be

					related to these transactions that took place in the year 2016.	maintained by the finance department.
- Sathosa Retail Company (SRL) creditors	655,000,000	Documents to confirm the value	to confirm	Sathosa Retail Company was liquidated in 2003 and these balances are disclosed in the financial statements from the year 2003. The documents available in the finance department to confirm the value of these transactions which took place 18 years ago have been presented.		Relevant evidence should be submitted to the audit.
- Bank liabilities	225,000,000	Documents to confirm the value	to confirm	do-		-do-
- Sales proceed received	680,000,000	Documents to confirm the Sales proceed received	to confirm	-do--		-do-
- On SRL	200,000,000	Documents to confirm the value	to confirm	Sathosa Retail Company was liquidated in 2003 and these balances are disclosed in the financial statements from the year 2003. Currently, the documents are not available in the finance division to		The documents to confirm value should be maintained by the finance division.

- On paddy project	254,149,693	Documents to confirm the value	<p>confirm the value of these transactions that took place 18 years ago</p> <p>This balance is the balance to be paid by Sathosa Retail Company to the Paddy Marketing Board at the time of liquidation of the company and treasury bonds have been issued for that balance in the year 2003. Documents are not available in the financial division to confirm the value of these transactions.</p>	-d0-
(iii) Long-outstanding trade debtor balance	6,214,481	Ledger accounts, invoices, receipts, approval for impairment	<p>Each of these ledger accounts are coming since prior to the year 2011 and information related to those documents is currently not available in the finance division. Actions will be taken to present long outstanding balances to the write-off committee in the future.</p>	-do-

(iv) Long-outstanding other debtors	170,370,348	Invoices, receipts, age analysis, approval for impairment	As the account balances which have been unchanged in the accounts since 2011 are in the accounts for a long period of time, the necessary arrangements will be taken to write off from the accounts. As the accounting department does not have the source documents to verify those balances, provisions have been made for impairment as per accounting standard number 36 as .it is not possible to recover them. It has been advised that the outstanding balances should be submitted to the write-off committee in the future.	-do-
(v) Other Debtors – Gamata Saviya Project	42,568,994	Invoice and receipts	This project has been carried out during the period 2014/2015. It has been advised to check whether the documents are available in	Relevant documents should be submitted to the audit.

			the warehouse of the finance department and to submit	
(vi) Long outstanding rent receivable	88,071,071	Leger accounts Invoices ,receipts , age analysis	As the account balances which have been unchanged in the accounts since 2011 are in the accounts for a long period of time, the necessary arrangements will be taken to write off from the accounts. As the accounting department does not have the source documents to verify those balances, provisions have been made for impairment as per accounting standard number 36 as .it is not possible to recover them.	The documents to confirm value should be maintained by the finance division.
(vii) Receivable from related parties -Sathosa Retail. Ltd.	110,878,720	Documents related to receivable balance	CWE finance division currently does not have the documents related to the transactions that took place in 2003 and years prior to. It has been advised to report this amount to the	-do-

				write-off committee in the future and to write it off from the accounts.	
-Lanka Sathosa Ltd.	24,202,985	Documents related receivable balance	to	This balance has been shown in the financial reports of the year 2010 as a balance due from Lanka Sathosa Limited under the current account balance of the subsidiary companies. As only the ledger account balances from the year 2011 have been entered in the Busy system where we are currently performing the accounting, the finance division does not have the ledger accounts of the years prior to and it is unable to check them. Therefore, the finance department does not have adequate evidence to answer how this balance has been prepared.	-do-
(viii) Statutory receivable	234,321,615	Documents related receivable balance	to	This is the total amount of	-d0-

Nations Building Tax			National Security Levy paid by the Corporation to the Inland Revenue Department since 2001. This balance is reflected in the accounts since 2003. We inquired about this from the Inland Revenue Department and although the relevant tax documents were requested by them to set off the tax amount paid, the finance department does not have any documents in this regard.	
(ix) Long outstanding trade creditors	3,519,166	Invoice ,payment details , age analysis	The Corporation does not have documents related to invoices relevant to these balances. It has been advised to report this amount to the write-off committee in the future and to write it off from the accounts.	-do-
(x) Long outstanding other creditors	187,678,063	Invoice ,payment details , age analysis	These balances are reflected in the financial statements from	-do-

				<p>prior to 2011. It has been advised to report this amount to the write-off committee in the future and to write it off from the accounts as the accounts division does not have source documents in this regard.</p>
(xi) VAT Payable	187,711,507	Calculations payments	and	<p>This balance has been made out of the sum of 03 account balances</p> <p>The relevant evidence should be presented to the audit.</p>
(xii) Offset tax credits	9,000,000	Calculations		<p>An amount of Rs.9,000,000.00 was paid to the Inland Revenue Department in the year 2020 and this payment was made for the defaulted goods and services tax due for the years 1995 - 2009 . The Corporation does not have any tax reports sent to the Inland Revenue Department during the years 1995 - 2009 and the tax amount has been paid according to the documents presented by the Inland Revenue</p> <p>The documents to confirm the value should be maintained by the finance department.</p>

(xiii)	Deposits and Advances – Long Term	29,692,440	Deposit receipts	<p>Department in this regard.</p> <p>As the account balances have been in the accounts for a long period of time since year 2011, the necessary arrangements to write them off from the accounts will be made. The accounts department does not have source documents to confirm those balances. Provisions have been made for impairment as they are not recoverable.</p>	-do-
(xiv)	Other investments – Sathosa Retail Ltd.	171,928,690	Documents to confirm the value	<p>These balances are reflected in the financial statements from prior to 2011. The accounts division does not have the source documents for this.</p>	-do-
(xv)	Balance of interest receivable account as at 01 Jan 2018	1,039,739	Renewal notices received from the bank relating to fixed deposits	<p>The balance of this account is a balance coming from the accounts of 2013. Interest received for the year 2019 have been correctly adjusted.</p>	Relevant evidence should be presented to the audit.

(xi) Balances payable on special projects

-Crate payables	7,731,857	Invoices, payment details, age analysis	This project has been implemented in the years prior to 2011. Currently, these documents are not available in the finance division.	Documents to confirm the value should be maintained by the finance division.
- Department of Cooperative Development	19,926,051	Invoices, payment details, age analysis	This balance is shown in the accounts as a loan given by the Cooperative Development Department to CWE in the year 2011. A credit balance of Rs.19,926,051 has been shown in this account since 2012.	Relevant evidence should be submitted to the audit.
- Millers payable	47,753,691	Invoices, payment details, age analysis	The balances of Rs. 16,500,960/= included in this balance is coming from prior to the year 2011. Actions will be taken to submit them for writing off as there are no source documents regarding these balances. The remaining balances are the	Documents to confirm the value should be maintained by the finance division..

balances in the ledger accounts from the year 2011 to the year 2017. Actions will be taken to reconcile these balances and to show in the accounts of the year 2021.

- Packing materials	10,191,665	Invoices, payment details, age analysis	This project has been implemented from the year 2011 to the year 2014 and the source documents are not available in the finance division.	-do-
- Transport	5,275,761	Invoices, payment details, age analysis	-do-	-do-
- Refundable Deposits (Millers)	4,605,106	Payment receipts	-do-	-do-
- Other Paddy Operations	11,523,151	Invoices, payment details, age analysis	-do-	-do-
-Maize Project	16,442,700	Invoices, payment details, age analysis	This project has been implemented in the years 2016-2017. As the documents submitted by CIC Grain were not original copies, the payment was retained by the payment committee appointed for this project. The	Relevant evidences should be submitted to the audit.

-Rice Export Project	22,797,153	Invoices, payment details, age analysis	<p>remaining amount to be paid to that institution is shown here. Actions will be taken to forward the documents related to this project to the audit department.</p> <p>The project was implemented in the years 2013/2014 and due to the accidental fire taken place of the head office on 31.07.2013, many of old documents belonging to the Corporation were destroyed. Therefore, it is not possible to present some of the documents mentioned here.</p>	<p>Documents to confirm the value should be maintained by the finance division..</p>
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1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Issue	Management Comment	Recommendation
(a) The Corporation had sold rice amounting to Rs.436,164,234 to a private company under the imported rice project during the year 2018 and all the cheques given to settle the amount of Rs.118,011,334 that should	A case has been filed in the Magistrate's Court of Fort after complaining the Criminal Investigation Department in connection with the fraud of Rs.118,011,334/- by obtaining imported rice from the Corporation, issuance of	The recoverability should be confirmed in case of supply of goods on credit basis.

have been received on 31 December 2018 had been dishonored. The Corporation had obtained 02 bank guarantees of Rs.100,000,000 while providing rice on credit basis and these guarantees had not been verified as authentic documents. Further, the rice had been continuously issued to the company even though it had not paid the debt continuously and, by 31 December of the year under review these bank guarantees had been revealed to be false documents. The Corporation had complained to the Criminal Investigation Department due to non-payment of this amount and a case was pending in the Magistrate's Court of Fort in this regard.

dishonored cheques and fake bank guarantee and a civil case is also pending in the Colombo Commercial High Court in this regard.

- (b) An amount of Rs.5,574,811 had been shown in the financial statements as at 31 December of the year under review, as the amount due from a buyer for the sale of imported rice. The Corporation had complained to the Criminal Investigation Department in this regard due to the denial by the buyer that rice was obtained on credit basis.

A complaint has been made to the Criminal Investigation Department against the person named W.R. Vijitha in case of selling imported rice and investigations have been started accordingly. Statements have been taken so far. Further, the Criminal Investigation Department has informed to conduct a complete audit and provide an audit report related to the sale of rice to W.R. Vijitha and receipt of money and an independent audit has been conducted accordingly and the relevant audit report has been submitted to the Criminal Investigation Department.

The recoverability should be confirmed in case of supply of goods on credit basis.

- (c) The Corporation had not taken steps to recover the amount of Rs. 88,071,071 which was stated as rent receivable over a long period of time. As the possibility of getting money for these long-standing balances is deficient, allowances have been made as per the instructions given in Accounting Standard No. 36. Notifications have been made to those institutions to make the relevant payments in this regard. Rent receivable should be recovered.
- (d) The amount of Rs.24,202,985 stated in the financial statements as the balance due from related parties had not been recovered by the Corporation during the year under review. This balance was stated in the financial reports of 2010 as a balance due from Lanka Sathosa Limited under the current account balance of the subsidiary companies. As it is not possible to recover the balance mentioned here, financial reports have been prepared by making provisions for impairment as stated in the accounting standard number 36. Receivable balances should be recovered
- (e) The amount due from Lanka Sathosa Company and Paddy Marketing Board to the Corporation was Rs. 2,290,445,474 and 94,059,338 respectively and the amount payable by the Corporation to Lanka Sathosa Company and Paddy Marketing Board had been Rs. 89,228,614 and Rs. 1,000,666,192 respectively as at 31 December of the year under review. These receivable and payable balances have been shown in the financial statements since number of years and the action had not been taken to settle those balances rvrn up to the date of the report. Lanka Sathosa has proposed a payment plan to pay the amount due for the sale of imported rice and local rice. In the meeting held at the Ministry of Trade, Commerce and Food Security on 03.08.2022, Lanka Sathosa agreed to make monthly payment of Rs.25,000,000 to CWE for 06 years from 01 September 2022. As Lanka Sathosa agreed to pay the amount due for getting local rice from CWE in installments from 01.09.2022, arrangements are being made to pay the amount payable by CWE to the Paddy Marketing Board using that money. Further, the Board of Directors has appointed employees to reconcile and to recover the balances from these organizations and they are carrying out related activities . The receivables and payable balances should be settled by reaching an agreement with the relevant institutions.

Accordingly, the Corporation has already taken necessary measures to recover and reconcile the relevant balances.

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| <p>(f) Rs.45,623,784 receivable to the Corporation from sundry debtors had not been recovered even as at 31 December of the year under review.</p> | <p>As it is not possible to recover the balance mentioned here, financial reports have been prepared by making provisions for impairment as stated in the accounting standard number 36. A committee has been appointed in the organization as per the instructions of the board of directors to recover all the debtor balances, and they are taking necessary actions to recover these balances. They have been instructed to report the progress to management through heads of divisions.</p> | <p>Receivable balances should be recovered.</p> |
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1.7 Non-compliance with laws, rules, regulations and management decisions etc.

Reference to Laws, Rules and Regulations	Non-compliance	Management Comment	Recommendation
<p>Paragraph 11.1 of Public Finance Circular No. 01/2020 dated 28 August 2020 for the amendment of the provisions of the Finance Regulations, 1992</p>	<p>Although the inventory survey for the current financial year should be completed and the report should be submitted to the Auditor General before March 31 of the next financial year, the inventory survey had not been conducted for the year under review even as at the date of this report.</p>	<p>Due to the Covid situation in the year 2020, it was not possible to carry out the inventory survey as scheduled, and that has been carried out properly since 2021.</p>	<p>The inventory survey should be carried out within the stipulated time as per the circular provisions.</p>

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a deficit of Rs 618, 975,255 and the corresponding deficit in the preceding year amounted to Rs. 1,003,047,978. Therefore a development amounting to Rs 384,072,723 of the financial result was observed. The main

reason for the development had been the decrease of loss of the local and imported rice projects implemented during the year by Rs. 364,684,705.

3 Operating review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
<p>(a) The loss of income incurred by the Corporation from the leased properties had been Rs.83,797,095 during the year under review due to fixing the price per square foot less than the prices mentioned in the assets revaluation report.</p>	<p>Some of the warehouses/properties that have been given less than the prices mentioned in the revaluation report have been funded by the respective leasee himself to repair the said warehouses and actions have been taken to obtain approval from the board of directors and to obtain valuation reports for some properties. Further, some of warehouses/properties had been given on rental basis to Lanka Sathosa Company which is a sister company of CWE and to the subsidiary companies of CWE.</p>	<p>Rent should be charged as per the rates mentioned in the revaluation report.</p>
<p>(b) The Corporation had lost an income of Rs.19,299,267 from the invoice value due to the shortfall in transit from the income receivable for the years 2018 and 2019 that had occurred during the transportation service provided by the Corporation to Lanka Sathosa Company and it had not been recovered even as at the date of this report.</p>	<p>The actions have been taken to recover the losses and take disciplinary measures by varying out investigations against the employees responsible for shortfalls occurred in the lorries deployed for the transportation of goods of Lanka Sathosa .</p>	<p>Shortfall in transit should be recovered from the responsible parties.</p>

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| <p>(c) The amount of square feet that was idle without arranging for renting out of the properties owned by the Corporation had been 177,036 during the year under review and according to the rent mentioned in the asset revaluation report submitted in the year 2015, the Corporation had lost an annual income of Rs.80,401,440 due to the idleness of these buildings</p> | <p>It was not possible to take actions in this regard during the year under review due to the reasons such as quarantine curfew, travel restrictions and limitations for attending the offices during the Covid pandemic situation in the country, and the Corporation had called tenders to provide the said property on rent basis in the year 2021.</p> | <p>The property of the Corporation should be used efficiently to generate income.</p> |
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3.2 Management inefficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) Debit balances of 04 bank accounts aggregating Rs. 8,510,280 had been shown due to the facts that unidentified debit balances in dormant bank accounts existing more than 10 years and money transfers between accounts is not managed properly.</p>	<p>According to the instructions given to the bank, only a balance of Rs.100,000/- has been retained in the current account in the bank and the remaining amount has been deposited in the savings account number 2030013001. Accordingly, due to the fact that a balance of Rs.100,000/- is retained from the total amount deposited in the account 1415160701 and the remaining amount is deposited in the savings account and the account 1415160701 only includes the value of the cheques issued, the balance of that account is always a credit balance. This will be discussed in the next audit and management committee and the necessary actions will be taken to show this balance correctly in the accounts from 2022.</p>	<p>Dormant bank accounts should be settled by entering into an agreement with respective banks and money transfer between accounts should be properly managed.</p>

Other bank account balances are dormant bank accounts that have existed for more than 10 years and these balances will be submitted to the write-off committee and the audit and management committee and proceed according to the instructions given in this regard.

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| <p>(b) 83,837 kilograms of rice belonging to varieties of imported white rice, imported Nadu rice, local samba rice and red raw which were stored in Higurakgoda and Pannegamuwa warehouses had been sold for animal feed for an amount of Rs.4,911,230 during the year under review and the attention of the management had not been focused to prevent such losses.</p> | <p>Imported and local rice stocks were collected in warehouses related to Higurakgoda and Pannagamuwa rice complex and the amount of stock that was handled was very large. Selling these stocks for animal feed is more effective as the stocks are not suitable for human consumption due to the time period of storage, weather conditions and operational activities.</p> | <p>Attention of the management should be focused to avoid stock losses.</p> |
| <p>(c) The Corporation had paid Rs.4,230,500 to a private entity during the year under review for cleaning services without entering into an agreement.</p> | <p>The same cleaning company which was selected in the year 2019 according the procurement guidelines has been deployed for this at the same price of the year 2019 and the service has been obtained subject to the conditions of the year 2019.</p> | <p>Arrangements should be made to enter into written agreements regarding service contracts.</p> |

3.3 . Operational Inefficiencies

Audit Issue

Management Comment

Recommendation

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| <p>(a) According to the Co-operative Wholesale Establishment (Amendment) Act No. 12</p> | <p>CWE involved in the implementation of government policies away from the main objective of the CWE due to the</p> | <p>Objectives of the Act should be achieved.</p> |
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of 1969, the necessary measures had not been taken to achieve the following objectives of the Corporation.

- (i) To procure and supply the requirements of co-operative societies.
- (ii) To carry on business as exporters of and as wholesale and retail dealers in goods of every description.
- (iii) To carry on such other trade or businesses including any agricultural or industrial undertaking or the business of banking or shipping as may be approved by the Minister with the concurrence of the Minister in charge of the subject of Finance.

(b) It was observed that the following activities which had been planned to increase the financial performance and increase the customer satisfaction according to the action plan of the Corporation in the year under review, had not been achieved..

(i) Import of 5000 metric .tons of white sugar, 3500 metric tons of red lentils, 1000 metric tons of sprats, 5400 metric tons of canned fish, 350 metric tons of garlic, 1350 metric tons of chickpeas and 1350 metric tons of green gram at reasonable prices.

The Corporation did not get the opportunity to import red lentils, white sugar, sprats, garlic, canned fish, chickpeas, and green gram that were expected to be imported due to the Covid pandemic situation in the country

Planned activities should be completed as much as possible.

(ii) Purchase of 5500 metric .tons of brown sugar locally

It was not possible to continue this project successfully during the

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at a fair price	year due to the imposition of quarantine curfew and travel restrictions in the country under the spread of the Covid .	
(iii) Increase of parking revenue by Rs. 14.5 million	It has not been possible to increase the revenue percentage under the restriction of the arrival of vehicles in Colombo due to the imposition of quarantine curfew, the imposition of travel restrictions, etc, due to the spread of the Covid pandemic situation in the country during the year 2020,	-do-

3.4 Idle or underutilized Property Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) The Corporation had 109 vehicles as at 31 December of the year under review, out of which 21 vehicles were taken out of service and remained idle during the entire year.	Although there were 109 vehicles in the year 2020, 11 vehicles were sold by tender. Another 10 vehicles were taken out of service to be removed by tender.	Necessary actions should be taken expeditiously as per the financial regulations in respect of vehicles intended to be disposed.
(b) The Higurakgoda and Pannegamuwa rice processing complexes owned by the Corporation have been underutilized for several years and both the rice complexes have a processing capacity of 2000 kg of rice. However, only 372,800 kilograms of rice had been produced by Pannegamuwa rice processing complex in the year under review Furthermore, 13 to 21 employees had been employed in that complex and Rs. 10,948,807 had been paid as wages, overtime and other allowances during the year under review. 06 employees	Paddy is procured from the Paddy Marketing Board for these two complexes and they issue paddy only for cash basis. Accordingly, in the year 2020, the stock of paddy held by the Paddy Marketing Board was limited and the stock was released simultaneously to CWE and the private sector. Accordingly only the limited quantity of paddy that was able to obtain to CWE during the period was milled. Further, CWE has not directly purchased paddy and as wet paddy is mainly produced by the farmers, CWE does not have the drying facility, which needs to be kept in storage for milling for	The property of the Corporation should be used efficiently to generate income.

had been employed in Higurakgoda rice processing complex during the year under review and Rs. 2,902,590 had been paid as wages, overtime and other allowances. Only 309,550 kilograms of rice had been produced there during the year under review.

several months . Further, CWE employees, including the security department, have been deployed for these two complexes.

3.5 Project Implementation

Audit Issue

Management Comment

Recommendation

3,302,968 tins of canned fish costing Rs.666,559,566, 691,725 kg of red lentils costing Rs 233,985,325, 375,158 kg of big onion costing Rs. 48,790,557 and 30,858 kg of potatoes costing Rs.5,652,104 and 23,560 kg of garlic costing Rs.10,531,320 had been purchased for supply to consumers during the period of Covid pandemic under the Special Covid Operation Project implemented in the year under review The following observations are made in this regard.

(i) A formal estimate as per Guideline 4.3.1 (a) of the Procurement Guidelines and specifications as per Guideline 5.6 of the Procurement Guidelines had not been prepared for the relevant purchases.

Procurement activities were carried by a Ministry Procurement Committee. Obtaining the prices from the suppliers of essential food items was done by the same committee The relevant procurement authority had decided to procure without specifications and estimates as the purchase and distribution activities were very difficult due to the quarantine and curfew situation in the island.

Procurement guidelines should be followed.

(ii) As per Guideline 6.2 (c) of the Procurement Guidelines, although the time given for inviting bids should be

This has been affected by practical difficulties such as difficulty in summoning suppliers in the quarantine curfew situation,

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reasonably sufficient for preparation of relevant bids, the opportunity to get competitive bids had been lost due to giving only 30 minutes time to suppliers to submit prices for procurement of canned fish and red lentils.

- urgency of distribution of essential food items to district secretaries to prevent food shortage in the country.
- (iii) Although the distribution of food items should be done through the Divisional Secretariats and District Secretariats, the Corporation had sold 100,000 tins of canned fish to a private company. The amount of Rs. 9,286,000 relevant to this had been refused by the General Treasury to reimburse the Corporation. 100,000 cans of tinned fish have been supplied to a supplier of foodstuffs to the armed forces in order to distribute for the requirement of armed forces. The Board of Directors has also inquired about this process and former Secretary to the Ministry has complained to the Inspector General of Police and the Bribery or Corruption Investigation Commission is also conducting an investigation. The relevant conditions should be fulfilled in the manner that the expenses can be reimbursed from the General Treasury.
- (iv) 4,108 kg of large onions, 6,050 kg of potatoes and 445.5 kg of garlic had been destroyed as due to being unfit for the consumption and the total cost of those stuffs had been Rs.1,830,171. The value of the total stock purchased for this project is approximately Rs. 1135 million. In case of handling such a large stock within short period of 03 months under a quarantine curfew environment these perishable food items have been destroyed. Immediate action should be taken to minimize stock losses.
- (v) 363,633 kilograms out of 375,158 kilograms of big onions had been sold and 4,108 kilograms had been destroyed. Accordingly, a shortfall of 7,417 kilograms was observed and 23,513 kilograms of potato out of 30,858 kilograms had been released. Out of them 6,050 kilograms had been destroyed and a shortfall of 1,295 kilograms was observed. Also, 3,302,968 It is observed that this condition has happened in the situation where the requests made by the Food Commissioner for the orders to be supplied by the District Secretaries and Divisional Secretaries within a very short period of time are carried out in the background of the Quarantine curfew. Actions should be taken to minimize shortfalls.

cans of canned fish had been purchased under the project and 3,302,491 cans had been sold. Accordingly, a shortfall of 477 canned fish was observed.. According to the calculations of the audit, the loss incurred by the Corporation due to the above shortfalls had been Rs.1,303,880.

- (vi) 15,250 kilograms of red lentils given to the Corporation by the Lanka Sathosa Company for packaging and redistribution had been sold by the Corporation to the consumers for Rs.65 under the above project. However, the Corporation had to pay Rs. 128 per 01 kg to Lanka Sathosa Company for that. The Corporation had to bear a loss of Rs. 960,750 due to the non-reimbursement of Rs. 63 which was overpaid for one kilogram due to the fact that this transaction was not made at subsidized rates under the Covid project.
- According to Gazette No. 2167/9 dated 17 March 2020, the maximum retail price at which Mysore lentils (red lentils) can be sold is Rs. 65/= only.. Even if this stock of red lentils was sold by Lanka Sathosa at that time, the maximum retail price would be Rs. 65/= only. Accordingly, charging more from CWE is an offense of finance division of Lanka Sathosa. A letter have been submitted by us expressing objection for that.
- The relevant conditions should be fulfilled in the manner that the expenses can be reimbursed from the General Treasury.
- (vii) 13 warehouses owned by the Corporation had been commenced to renovate in the year 2019, and a sum of Rs. 72,356,234 had been spent for the renovation in the year under review. All the renovation works should be completed in the year 2020, only 06 warehouses had been completed. by the end of the year under review.
- The supervision of this project also became problematic due to factors such as long delays in the due payments to the contractors due to taking a long time to get the budget allocation existed under the previous ministry to the new ministry, , increase the price levels of the economy mentioned in the bill of quantities also in that situation, the arrest of the engineer of the company which was in charge of the project, the delay in
- Planned activities should be completed within the stipulated time.

appointing a board of directors for the company and the resignation of its former chief executive and chief engineer, the rapid spread of the Covid-19 virus pandemic in the island .

However, 09 of these 13 warehouses have been completed by now.

3.6 Procurement Management

Audit Issue

The procurement committee had recommended in the year under review to purchase 100 sets of tyre tubes and collars for the vehicles of the Corporation from the State Trading Corporation. However, contrary to the recommendation of the procurement committee, 100 sets of equipment had been purchased at a cost of Rs.5,531,240 from a private company that did not submit the prices in the above procurement process.

Management Comment

Although, CWE forwarded a purchase order to the State Trading Corporation as per the approval of the procurement committee, the said institution has informed that it is unable to issue tyres in relation to this order. Therefore, as it is possible to purchase transport spare parts from relevant local agencies as per Section 9.2.1 of the Procurement Guide (9.2), a quotation has been obtained and purchased from Ideal Wheels and Tyres (Pvt) Company , the only local supplier of Apollo model tyres/tubes and collars. .

Recommendation

In the instances where the recommendations of the Procurement Committee cannot be implemented, the recommendations of the Procurement Committee should be taken again and actions should be taken accordingly.

3.7 Human Resource Management

Audit Issue

37 posts of Management Assistants had been approved for the Corporation and the actual cadre had been 23. The approved cadre for task assistants was 120 and the actual cadre was 114. Due to the insufficient number of management assistant posts, important administrative and financial subjects

Management Comment

It has not been possible to make recruitments due to the facts that the government has imposed quarantine curfew, travel restrictions and also only essential employees have been called in the offices in the year 2020 due to the spread of Covid-19 and currently the recruitment of employees has

Recommendation

Important administrative and financial matters should be handled by qualified officials.

had been covered by employees which hold task assistant posts. been temporarily stopped due to a government policy decision.

4 Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Issue	Management Comment	Recommendation
<p>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 22 November 2022 after a delay of 21 months and the draft annual report had not been presented.</p>	<p>Agreed. Due to the delay of one year to prepare the consolidated accounts after preparing the financial statements for the years 2017, 2018, 2019` of CWE Construction and Engineering Company, which is a subsidiary company of the Corporation, , the preparation of the financial statements of the Corporation and submission for audit was delayed. After completing the audit of the year 2020, the financial statements of the year 2021 will be submitted to the audit and the financial statements of the year 2022 are also planned to be submitted to the audit in the year 2023. The financial statements will be submitted on the due date from the year 2023.</p>	<p>The financial statements should be submitted to the audit within 60 days after the close of the accounting year as per the provisions of the circular.</p>