

Co-operative Wholesale Establishment and its subsidiaries (group) - 2019

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 2019 comprising the statement of Financial Position as at 31 December 2019 and the statement of 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 Financial Statements

1.5.1 Noncompliance with Sri Lanka Accounting Standards

| Non Compliance with the reference to particular Standard | Management Comment | Recommendation |
|---|--|---|
| <p>(i) LKAS 16 :- Property Plant and Equipment</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</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> |

equipment with a written down value of Rs. 490,101,520 as at 31 December 2019 had not been reviewed.

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| <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 44 machineries 2071 furniture and fittings 126 motor vehicle, 22 tools and equipment, 146 office equipment and 308 computers and accessories which were fully depreciated and still in use had not been disclosed in the financial statements.</p> | <p>The carrying value of property, plant and equipment that is fully depreciated but still in use has been disclosed as per Standard in the financial statements for the year 2019. The carrying value 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. 9.1 and notes to the accounts are available.. As per notes to the accounts 9.3, the carrying value of fully depreciated assets of the Corporation has been shown as Rs.348, 956,141/-.</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 intangible 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

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. The standard should be followed.

1.5.2 Accounting Deficiencies

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
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| <p>(a) Although the building material stock of Rs.4,143,032 shown in the financial statements as building department stock as at 31st December 2019 has been shown in the financial statements since 2004 , its physical existence was not confirmed by the audit evidence. Accordingly , the inventory balance as at 31 December 2019 had been overstated by the same amount</p> | <p>Actions have been taken to make provisions for impairment for this balance since the year 2020.</p> | <p>Assets which do not physically exist should not be recognized as assets in the financial statements.</p> |
| <p>(b) 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. Out of this value, an amount 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</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 a negligence of the Cabinet decision.</p> | <p>An amount that has not been agreed by an external party should not be recognized in the financial statements as an advance for investment.</p> |

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.

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| <p>(c) 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 had been overstated by Rs.206,600,000</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> |
| <p>(d) The value of the buildings had been undressed by Rs.2,355,200 in the financial statements due to accounting of a warehouse with the 2944 square feet situated in Matara 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.</p> | <p>-do-</p> | <p>-do-</p> |
| <p>(e) 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 provision for depreciation had been understated by Rs. 8,815,015.</p> | <p>All these assets have been revalued in the year 2021 and accurately accounted from the year 2021 onwards.</p> | <p>The revalued amount of the asset should be accounted.</p> |

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| <p>(f) The value of the withholding tax provision related to the rental income of the buildings received by 05 institutions during the year under review had been understated by Rs.1,420,901.</p> | <p>It will be checked further with the relevant institutions in this regard and steps will be taken to make adjustments in the accounts for the year 2020 if there are withholding tax certificates for the year 2019.</p> | <p>Withholding taxes should be accurately accounted.</p> |
| <p>(g) Interest income receivable amounting to Rs.920,185 for fixed deposits and term deposits for the year under review had not been accounted .</p> | <p>Fixed deposit interest has been shown separately and correctly in the accounts from the year 2020 according to the balance confirmation letters provided by the bank.</p> | <p>Interest income receivable for the year should be accounted.</p> |
| <p>(h) Although the fixed deposit and term deposit interest income for the year under review was Rs.3,812,579, as it was accounted as Rs.1,974,109, the interest income for the year had been understated by Rs.1,838,470 in the financial statements</p> | <p>Interest income for the year under review has been accounted accurately.</p> | <p>The interest income for the year should be accounted accurately.</p> |
| <p>(i) As the mobilization advance of Rs.38,446,618 paid to CWE Engineering and Construction Company in the year under review for the renovation of 13 warehouses belonging to the Corporation has been accounted as work in progress, the balance of the work in progress account had been overstated and the balance of mobilization advance account had been understated by the same amount.</p> | <p>The useful life time of the warehouse has been increased by this renovation and the value of the assets also has been increased. Therefore, as soon as the relevant bills are received, the value to be capitalized will be removed from the work in progress account and debited to the relevant asset account and minor repair expenses will be debited to the income account as expenses.</p> | <p>Mobilization advances should not be accounted as work in progress.</p> |
| <p>(j) As the amount of Rs.16, 024,500 received from the sale of 345,084 kg of unusable rice out of the imported rice in the year under review had been accounted as another income of the Corporation without accounting as an income related to the imported rice project, the loss of</p> | <p>Steps have been taken to correctly indicate this balance in the notes related to the previous year in the 2020 accounts.</p> | <p>Income should be accounted accurately.</p> |

the imported rice project had been overstated by the same amount.

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| <p>(k) The rent income of the year under review had been overstated by Rs.1,239,956 in the financial statements due to invoicing of building rent at rates that exceeded the building rent rates submitted for audit.</p> | <p>These invoices are issued by the service department and any of these lease agreements are not referred to the finance department. Therefore, the service department was instructed to provide information to the audit department regarding the changes in the invoices made according to the agreement.</p> | <p>Rent should be invoiced at the correct rates of rent.</p> |
| <p>(l) Although, the balance of rent receivable has been shown as Rs.250,234,789 according to the financial statements of the year under review, the balance of rent receivable had been understated by Rs. 8,719,704 in the financial statements due to deducting unrecognized deposits amounting to Rs.8,684,772 without confirmation as rent received and Including negative balances totaling Rs.34,932.</p> | <p>The Corporation has used the bank account to deposit cheques and cash related to rent. Unidentified deposits amounting to Rs.8,684,772/- mentioned here have been deposited in the above account. As this amount is not received as trading income, and as the debtor balances to be obtained for the previous years are shown in the rent receivable balance, this amount has been shown in the financial statements by removing from the rent receivable balance. .</p> | <p>Direct remittances received to the bank current account should be identified and recorded in the correct accounts.</p> |
| <p>(m) The rent receivable from CWE Construction and Engineering Company had been overstated by Rs. 3,041,421, due to the inclusion of building repair expenses in the rent receivable balance from the Company to the Corporation as at 31 December 2019 according to financial statement .</p> | <p>Note numbers including the rent receivable have been presented.</p> | <p>Expenses should be correctly identified and recorded in the relevant accounts.</p> |
| <p>(n) The receivable balances and payable balances at the end of the year under review had been understated by Rs. 16,737,142</p> | <p>Among these balances, the balances that the buyers have paid more for the purchase of rice in the years 2017-2019 have been shown .</p> | <p>Creditor balances and debtor balances shown as minus balances should be analyzed and the correct</p> |

and Rs. 79,483,133 respectively as certain debtor balances and creditor balances were being shown as minus balances in the financial statements.

Those balances will be identified as income and necessary approvals will be taken to separate the balances and to adjust them in the future financial statements.

balances should be shown in the financial statements.

The finance department does not have the source documents to reconcile the long-term balances existing among these and the remaining other balances will be taken to present in the future accounts accurately. The steps will be taken to present the outstanding balances to the write-off committee in the future.

(o) 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.

Agreed. This balance was checked and it is a balance that does not physically exist in the Corporation.

The cash balances shown in the financial statements should be physically exist.

(p) Unidentified debit balances in two dormant bank accounts that have been in existence for more than 10 years and accounts payable aggregating Rs. 6,538,568 had been shown in the financial statements as bank overdraft balance.

As the payments related to the accounting year should be accounted on 31 December 2019, all those payments were accounted in the year 2019 and as there was no money in the account, the payments were made in such a way that the money would be deposited in the year 2020 by retaining the said payments .

Actions should be taken to settle the balances in dormant bank accounts and transactions should not be entered in the cash book as payments without making payments to suppliers.

1.5.3 Unreconciled Control Accounts or Records

| Item | As per financial statement Rs. | As per corresponding record Rs. | Difference Rs. | Management Comment | Recommendation |
|-------------------|-----------------------------------|------------------------------------|-------------------|--|---|
| (a) Fuel Expenses | 28,171,284 | 21,332,739 | 6,838,545 | All the payment vouchers related to this | Value as per financial statements should be |

payment have been reconciled with value as per to the audit. Source corresponding documents records. including approval documents for payment are included with the vouchers.

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|---|---------------|---------------|-------------|---|---|
| (b) Amount due from Lanka Sathosa Company to the Corporation. | 2,479,639,195 | 2,131,314,280 | 348,324,915 | Although letters to confirm the balance as at 31.12.2019, were sent to Lanka Sathosa Company, they have not sent a reply to the Corporation. Therefore, it is not possible to confirm the balance. The balance confirmations will be obtained in the next accounting year and the comparisons will be made. . | Value as per financial statements should be reconciled with value as per corresponding reports. |
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1.5.4 Preparation of Consolidated Financial Statements

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|---|---|---|
| (a) The financial statements of the subsidiary companies CWE Economic Centers | Only the financial statements have been referred by that Company for the preparation of consolidated financial statements and they have | The accounts of the subsidiary companies approved by the board of directors should be used for the preparation of |

Services (Pvt) and 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. not forwarded to us any board approval obtained for the same. consolidated financial statements.

- (b) The revenue reserve of CWE Securities and General Company amounting to Rs 12,143,718 had been shown under retained earnings in the consolidated financial statement. Accordingly, the retained earnings in the consolidated financial statement had been overstated by Rs.12,143,718 and the revenue reserves had been understated by Rs.12,143,718. Sathosa Security Company has been inquired regarding this revenue reserves and accurate information has not been provided so far. This balance coming from previous years is shown under retained earnings in the consolidated accounts. Consolidation of the financial statements of the Corporation and the subsidiary companies should be done accurately.
- (c) Income of Rs.7,633,273 received by CWE Securities and General Company by providing security services to the Corporation had been offset against administrative expenses of the Group in the consolidated financial statement. Accordingly, the security cost of the group had been a negative value of Rs.85, 003. Although balance confirmation letters as at 31.12.2019 have been sent to the subsidiary companies, they have not sent a reply to the Corporation. Actions will be taken to identify that difference and to reconcile the balance in the future. Income or expenditure should not be a minus value in case of consolidating the financial statements of the Corporation and the subsidiary companies.

1.5.5 Going Concern of the Organization

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
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| The total liabilities excess to the total assets of the Corporation had been Rs.2,307,524,723 and the current liabilities excess to the current assets had been Rs.3,847,846,067 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. | Management pay continuous attention to the going concern of the corporation and take the necessary steps to make the best use of the available resources and obtain the necessary instructions from the General Treasury and the Ministry of Trade. | The Corporation should maintain an asset position capable of meeting its liabilities. |

1.5.6. Documentary Evidences not made available for Audit

| Item ----- | Amount Rs. ----- | Evidence not available ----- | Management Comment ----- | Recommendation ----- |
|----------------------------------|------------------------|---------------------------------|---|--|
| (i) Payable to Treasury ----- | | | | |
| (a) 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. | The relevant evidence should be presented to the audit. |
| (b) Restructuring of loans | 275,000,000 | Documents to confirm the value | CWE finance division does not have the documents to confirm the value related to these transactions that | The documents to confirm the value should be maintained by the |

took place in the finance
year 2006. department.

(c) Sathosa Retail
Company
(SRL)

Creditors 655,000,000
Bank liabilities 225,000,000
Sales proceed 680,000,000
received

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Sathosa Retail Relevant
Company was evidence
liquidated in should be
2003 and these submitted to
balances are the audit.
disclosed in the
financial
statements the
year 2003
onwards. The
documents
available in the
finance
department to
confirm the value
of these
transactions
which took place
18 years ago have
been presented.

(d) On SRL 200,000,000

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Sathosa Retail The
Company was documents to
liquidated in confirm
2003 and these value should
balances are be
disclosed in the maintained
financial by the
statements the finance
year 2003 department.
onwards.
Currently, the
documents are
not available in
the finance
division to
confirm the value

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|--|-------------|--|--------------------------|---|--|
| | | | | of these transactions that took place 18 years ago | |
| (e) On Paddy Project | 254,149,693 | The documents confirm the value | to | Any of the documents to confirm the value of these transactions are not available in the finance department. | Documents to confirm the value should be maintained by the finance division. |
| (ii) Long-outstanding trade debtor balance | 6,214,481 | Ledger invoices, approval for impairment | accounts, receipts, | 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. | Relevant evidence should be submitted for audit. |
| (iii) Long-outstanding other debtors | 170,370,348 | Invoice analysis, impairment | , receipts, approval for | These balances are shown in the accounts from prior to 2011, and as only the ledger account balances from the year 2011 have been entered in the system in which we currently perform the accounting, it is | Documents to confirm the value should be maintained by the finance division. |

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| | | | not possible to check the ledger accounts of previous years. The finance division does not have source documents to prove those balances. | |
| (iv) Other Debtors – Gamata Saviya Project | 42,568,994 | Invoice and receipts | .This project has been carried out during the period 2014/2015. The related invoices and receipts have been referred to the audit of those years. | Relevant documents should be submitted to the audit. |
| (v) Long outstanding rent receivable | 88,071,071 | Leger accounts ,receipts , age analysis | The accounts division does not have source documents to confirm those balances. | Documents to confirm the value should be maintained by the finance division. |
| (vi) 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. | Documents to confirm the value should be maintained by the finance division. |
| -Lanka Sathosa Ltd. | 24,202,985 | Documents related to receivable balance | This balance has been shown in the financial reports of the year 2010 as a balance due from | -do- |

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.

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| (vii) | Statutory receivable Nations Building Tax | 234,321,615 | Documents related to receivable balance | The accounts division does not have any document in this regard. | Documents to confirm the value should be maintained by the accounts division. |
| (viii) | 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. | Relevant evidence should be submitted to the audit. |
| (ix) | Long outstanding other creditors | 187,678,063 | Invoice ,payment details , age analysis | These balances are reflected in the financial statements from prior to 2011. The accounts division does not have source | Documents to confirm the value should be maintained by the accounts division.. |

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|-------------------------------------|-------------|-----------------------|-----|---|
| | | | | document for this. |
| (x) VAT Payable | 187,711,507 | Calculations payments | and | The balance of Rs.187,711,507 has been made out of the sum of 03 account balances and we currently reconcile the tax payment on the Value Added Tax according to the information available in the Income Tax Department and according to their reports, the relevant taxes have been paid up to the end of 2018. As the reconciliations are being carried out these days regarding the taxes to be paid in 2019, the future accounting will be done according to the correct information. |
| | | | | Relevant evidence should be presented to the audit. |
| (xi)Deposits and Advances Long Term | 29,692,440 | Deposit receipts | | The accounts division does not have the source documents to confirm the balances. The documents to confirm the value should be maintained by the accounts division. |

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| (xii) | Other investments – Sathosa Retail Ltd. | 171,928,690 | Documents to confirm the value | These balances are reflected in the financial statements from prior to 2011. The accounts division does not have the source documents for this. | The documents to confirm the value should be maintained by the accounts division. |
| (xiii) | Balance of interest receivable account as at 01 Jan 2018 | 1,039,739 | Renewal notices received from the bank relating to fixed deposits | The balance of this account is a balance coming from the accounts of 2013. Interest received for the year 2019 have been correctly adjusted. | Relevant evidence should be presented to the audit. |
| (xiv) | Balances payable on special projects | | | | |
| (a) | Crate payables | 7,731,857 | Invoices, payment details, age analysis | Currently, these documents are not available in the finance division. | Documents to confirm the value should be maintained by the finance division. |
| (b) | 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 | Relevant evidence should be submitted to the audit. |

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| | | | in this account since 2012. | |
| (c) Millers payable | 47,753,691 | Invoices, payment details, age analysis | Balances amounting to Rs. 16,500,960/= among the balances included in this balance are 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 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. | Relevant evidence should be submitted to the audit. |
| (d) 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. | Documents to confirm the value should be maintained by the finance division. |

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| (e) Transport | 5,275,761 | 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. | Documents to confirm the value should be maintained by the finance division. |
| (f) Refundable Deposits (Millers) | 4,605,106 | Payment receipts | -do- | -do- |
| (g) Other Paddy Operations | 11,523,151 | Invoices, payment details, age analysis | -do- | -do- |
| (h) 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 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. | Relevant evidences should be submitted to the audit. |
| (i) Rice Export Project | 22,797,153 | Invoices, payment details, age analysis | The project was implemented in the years 2013/2014 and | Security measures should be applied |

due to the regarding the accidental fire security of taken place on source 07th floor of the documents. head office on 31.07.2013, many of old documents belonging to the Corporation were destroyed by fire. Therefore, it is not possible to present some of the documents (belonging to the period before 2013) mentioned here.

1.6 Accounts Receivable and Payable

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|--|--|--------------------------------------|
| (a) 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 and 100 percent had been provided for impairment. | Due to the absence of any source document related to the rent mentioned here or basic ledger of the Corporation before the year 2011 to find out how these ledger accounts have been prepared, it has not been possible to take any legal action to recover these balances. Due to lack of ability to recover these long-standing balances, impairment have been made as per the instructions given in accounting standard No. 36. | Rent receivable should be recovered. |
| (b) The Corporation had not taken steps to recover any amount from the balance of Rs.64, 538,436 stated under trade receivable. | A committee was appointed as per the instructions of the Board of Directors, and they will reconcile and recover these balances with the relevant institutions. | Rent receivable should be recovered. |

- (c) 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 and 100 percent provision had been made for impairment. 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. It is not possible to check the ledger accounts of previous years as only the ledger account balances from the year 2011 have been entered in the system in which we are currently performing the accounting. Therefore, the finance division does not have adequate evidence to answer how this balance has been prepared. Therefore, 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
- (d) 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 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 were not verified as authentic documents. Further, the rice had been continuously issued to the company even though it had 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 dishonored cheques and fake bank guarantee and a civil case is also pending in the Colombo Commercial High Court in this regard. The recoverability should be confirmed in case of supply of goods on credit basis.

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.

- (e) An amount of Rs.5,574,811 had been shown in the financial statements as at 31 December 2019 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 buyer that rice was obtained on credit basis.
- A complaint has been made to the Criminal Investigation Department against the concerned person for 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 is being conducted accordingly.
- The recoverability should be confirmed in case of supply of goods on credit basis.
- (f) The amount due from Lanka Sathosa Company and Paddy Marketing Board to the Corporation was Rs. 2,479,639,197 and 93,831,476 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
- The Paddy Marketing Board has handed over warehouses of CEW after September 2019. All the related documents have been forwarded to the institution and the reconciliation of balances is in progress.
- A part of the amount due from Lanka Sathosa has been paid to the Corporation by that institute in the years 2020 and 2021.
- Lanka Sathosa has proposed a payment plan to pay the remaining amount due for the sale of
- The receivables and payable balances should be settled by reaching an agreement with the relevant institutions.

review. These receivable and payable balances have been shown in the financial statements for many years and the Corporation had not reached an agreement with the relevant institutions to recover and pay the amounts.

imported rice and local rice. As Lanka Sathosa has agreed to pay the amount due for obtaining local rice from CWE in installments from 01.09.2022, actions will be taken to use the same to pay the amount due to the Paddy Marketing Board.

The payment plan presented by Lanka Sathosa to pay the said amount will be considered and carried out further as the amount of money to be received from Lanka Sathosa to CWE exceeds the amount of money to be paid to Lanka Sathosa.

1.7 Non-compliance with laws, rules, regulations and management decisions etc.

| Reference to Laws, Rules and Regulations | Non-compliance | Management Comment | Recommendation |
|---|---|---|--|
| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | | |
| Financial Regulations 103,104 | (j) The Corporation had not taken actions in accordance with the financial regulations regarding the shortfall in transit from the income due from transportation service for the years of 2018 and 2019 amounting to | Matters are to be presented to the Board of Directors to take actions on the recommendations of the committee appointed regarding the shortfall in transit. | Actions in terms of Financial Regulations should be taken in connection with the shortfall in transit. |

Rs.19,299,267 that had occurred during the transportation of goods provided by the Corporation to Lanka Sathosa .

(ii) Actions Regarding 12 vehicle accidents that occurred in the year 2019 had not been taken in terms of financial regulations. Actions based on the preliminary investigations will be taken in the future against the employees of CWE who are responsible in the same manner as which the insurance compensation are taken in case of vehicle accidents. Actions in terms of Financial Regulations should be taken in connection with vehicle accidents.

(b) Public Enterprise Circular No. PED/03/2019 dated 09 December 2019 and PED/03/2018 dated 07 December 2018. The Corporation had paid an amount of Rs. 3,277,275 as bonus for the year under review, despite the fact that the Corporation had incurred losses in the previous year. The draft account of the year 2019 reflected a profit for the Corporation. Based on this draft profit, the bonus was paid for the year 2019 . Actions should be taken in terms of the provisions of the Circular.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a deficit of Rs 1,003,047,978 and the corresponding deficit in the preceding year amounted to Rs. 2,236,445,017. Therefore a development amounting to Rs 1,233,397.039 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. 1,438,007,124.

3 Operating review

3.1 Identified Losses

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|--|--|--|
| (a) The Corporation had lost an income of Rs.19,299,267 from the invoice value due for the years 2018 and 2019 due to the shortfall in transit that had occurred during the transportation service provided by the Corporation to Lanka Sathosa Company. | The lost income will be recovered from the parties responsible for the shortfall in transit by proceeding as per the recommendations of the inquiry committee for shortfall in transit. | Shortfall in transit should be recovered from the responsible parties. |
| (b) The loss of income incurred by the Corporation from the leased properties had been Rs.104,766,732 during the year under review due to fixing the price per square foot less than the prices mentioned in the valuation report. | Although a lower value has been given on lease base for the Consumer Affairs Authority established in the head office, lease agreements will be entered into based on the revalued amount in the future. | Rent should be charged as per the rates mentioned in the valuation report. |

3.2 Management inefficiencies

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|--|---|---|
| 27 cases where the corporation did not taken actions to enter into written agreements while leasing the property and 06 cases where the expired lease agreements were not renewed were observed. | All the lease agreements that need to be prepared are being completed by correcting the deficiencies regarding property agreements. . | Arrangements should be made to enter into written agreements in case of leasing property. |

3.3 Idle or underutilized property, plant and equipment

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|--|---|--|
| The amount of square feet that was idle without arranging for rent out of the properties owned by the Corporation had been | Actions are being taken to lease the idle spaces in terms of procurement procedures by publishing advertisements in newspapers from | The property of the Corporation should be used efficiently to generate income. |

207,796 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 .

time to time.

3.4 Human Resources Management

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|--|---|--|
| The approved cadre of the Corporation consisted of a total of 365 posts and there were 69 surplus employees and 46 vacancies as at 31 December of the year under review. | While the provisions to fill vacancies in that year was not available, all recruitment had been temporarily suspended as per the government circular. Further, although 69 employees have been mentioned as excess employees of the organization, all the employees have been utilized for projects and daily operations. | Necessary actions should be taken to maintain the approved cadre of the Corporation. |

4 Accountability and Good Governance

4.1 Presentation of Financial Statements

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|--|---|---|
| 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 06 January 2022 after a delay of 22 months and the draft annual report had not been presented. | 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. The financial statements will be submitted on the due date from the year 2021. | The financial statements should be submitted to the audit as per circular provisions. |