

Transactions Report of Co-operative Wholesale Establishment - 2023

The audit of the operational activities of the Co-operative Wholesale Establishment for the year ended 31 December 2023 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, Finance Act, No. 38 of 1971 and Co-operative Wholesale Establishment (Amendment) Act No. 12 of 1969. My observations in connections with only the operations of the Corporation in the year under review which I consider should be presented to the Parliament in pursuance in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Responsibilities of Management with Governance for the Financial Statements

Each audit entity should maintain proper books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16(1) of the National Audit Act, No. 19 of 2018. The annual financial statements of each audit entity approved by the Board of Governance should be submitted by the Chief Accounting Officer to the Auditor General along with the annual performance reports of those entities within such period as may be specified by the rules in terms of Section 16(2) of the said Act. It should be ascertained to prepare annual reports and other financial statements within the required time period in terms of Section 38(1) (d) of the Act and in addition to that the Chief Accounting Officer should be responsible for presenting of the annual reports pertaining to the entity which was being audited to Parliament. Nevertheless, the financial statements approved by the Board of Governance for the years 2021, 2022 and 2023 that should have been handed over to the Auditor General within a period of 60 days after the close of the financial year in terms of Section 6.6 of the Operational Manual for State Owned Enterprises published through the Public Enterprises Circular, No. 01/2021 dated 16 November 2021, had not been presented to the Audit even up to the date of this report.

1.3 Assets, Liabilities, Income and Expenditure

- a) Particulars on assets, liabilities, income and expenditure shown in the financial statements last prepared by the Corporation for the year ended 31 December 2020, are as follows.

Item of the Financial Statement	Value Rs.
<u>Assets</u>	
Non-current Assets	6,458,394,856
Current Assets	4,592,315,521
Total Assets	11,050,710,377
<u>Equity and Liabilities</u>	
Equity	(2,941,269,573)
<u>Liabilities</u>	
Non-current Liabilities	8,310,536,743
Current Liabilities	5,681,443,207

Total Liabilities and Equity	11,050,710,377
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Total Income	26,393,113
Total Expenditure	645,368,369

Surplus/(Deficit)	(618,975,255)
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2. Audit Observations

2.1 Restructuring the Corporation

Due to failure in productively contributing to the economy as objectives of establishing the Corporation had not been achieved, the Ministry of Trade, Commerce and Food Security had decided to restructure the Corporation. Accordingly, approval of the Cabinet had been given to restructure the Corporation through the Cabinet Decision No. CP 23/1208/627/018 taken on 10 July 2023 with respect to the Cabinet Memorandum presented by the Minister of Trade, Commerce and Food Security on 26 June 2023 under the title “Restructuring the Co-operative Wholesale Establishment”. Following that decision, all the employees of the Corporation (288 employees) had been retired on 30 September 2023 under a compulsory retirement scheme (CRS). A sum of Rs. 353,754,444 had been paid as compensation thereon.

2.2 Lack of Evidence for Audit

Audit Observation	Comment of the Management	Recommendation
a) According to the observation No. 1.1 made by the Minister of Finance, Economic Stabilization and National Policies on 10 July 2023 with respect to the Cabinet Memorandum presented by the Minister of Trade, Commerce and Food Security on 26 June 2023 under the title “Restructuring the Co-operative Wholesale Establishment (CWE)”, the movable properties should have been sold under the approval of Board of Directors that time, and approval of the Cabinet had been given subject to those observations. Nevertheless, 51 lorries of the Corporation had been sold until January 2024, but approval of the Board of Directors in that connection had not been made available to the Audit even by 03 December 2024; thus, it was not verified that the Cabinet Decision had been adhered to.	Not replied.	The relevant evidences should be furnished to the Audit.
b) Decisions taken by the Board of Directors during the period from November 2023 to	Not replied.	Decisions of the Board of Directors

November 2024 had not been furnished to the Audit.

should be furnished to the Audit.

2.3 Non-compliances with Laws, Rules and Regulations, etc.

Instances of non-compliances with Laws, Rules and Regulations are as follows.

Reference to Laws, Rules and Regulations etc.	Non-compliance	Comment of the Management	Recommendation
a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
(i) Financial Regulation 395 (c).	Bank reconciliation statements on 08 current accounts of the Corporation relating to the period from September 2023 to September 2024, had not been prepared even by 31 October 2024. Bank statements of those accounts for the same period, had not been furnished to the Audit as well.	Due to compulsory retirement of all the employees of the Corporation on 2023.09.30, no officer was responsible for preparing the bank reconciliation statements, thus resulting in the delay of this process. Bank reconciliation statements are being prepared following the appointment of a new acting Chairman on 2024.10.14. Accordingly, the bank reconciliation statements will be made available in due course.	Action should be taken to prepare the bank reconciliation statements in accordance with Financial Regulations.
(ii) Financial Regulation 756 (6).	Report of the Board of survey for the year under	Board of survey could not be	Board of survey should be

review, had not been conducted due to compulsory retirement of all the employees of the Corporation. It is expected to conduct a Board of survey by attaching a staff in due course, and a copy of the report will be made available thereafter.

- b) Paragraph 07 of the Circular No. 01/2023 of Board of Directors of the Co-operative Wholesale Establishment dated 14 September 2023, and Financial Regulation 103 and 104. Compensation should be released only after deducting the loans obtained by employees from the Corporation, all the receivables to the Corporation and payments to be settled on disciplinary orders, but compensation had been paid without recovering the sum of Rs. 16,530,969 due from employees with respect to shortfall in transit in the years 2018 and 2019. Compensation had been computed and final payments had been made after recovery of all the dues from employees as per information certified and provided by accounts and legal division. Further information will be made available once the comprehensive reports are prepared on the due shortfall in transit. Actions should be taken to recover the dues from employees.

2.4 Accounts Receivable and Payable

Audit Observation	Comment of the Management	Recommendation
According to the financial statements of Lanka Sathosa Limited Company presented to	Not replied.	The balances receivable and

the Audit for the year ended 31 December 2022, the balance receivable to the Corporation from that Company amounted to Rs. 1,688,225,936 as at that date whereas the balance payable by the Corporation to the Company amounted to Rs. 10,083,353.

payable should be settled.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
a) A lease rent of Rs. 84,862,555 comprising the sum of Rs. 17,031,455 receivable for the year 2023 on properties of the Corporation given on lease, and the sum of Rs. 67,831,100 receivable for the period of January to June 2024, had not been recovered even by 15 July 2024.	A detailed analysis has been commenced on the recovery of monthly lease rents, and recovery of outstanding lease rents has been in progress. A detailed report will be furnished in due course.	Lease rents should be recovered expeditiously.
b) As no written agreements had been entered into the Lanka Sathosa Ltd Company had paid lease rents less than the value in the invoice. Hence, the Corporation had lost a lease rent income of Rs. 13,161,592 relating to the period from September 2023 to February 2024.	The lease rent will be reassessed with respect to the lease agreement with the Lanka sathosa Ltd, thereby recovering the outstanding lease rents.	Properties should be given on lease under written agreements following a proper assessment.
c) Without entering into written agreements with 21 private lessees, properties in extent of 35,332 square feet with an annual lease rent income of Rs.1,558,786, had been given on lease.	No information whatsoever could be found in that connection. Once information is verified in due course, a detailed explanation would be given.	- Do.
d) In the wake of all the employees being retired, 30 officers of the Lanka Sathosa Company Ltd appointed on acting basis for the affairs of the Corporation, had been paid a sum of Rs. 4,410,412 as allowances relating to the period from 01 October 2023 to 31 August 2024. Nevertheless, the Audit was not provided with appointment letters of those officers,	Employees of the Lanka Sathosa Company Ltd had been attached from time to time on the basis of covering the duties on temporary basis, and all the relevant information will be furnished in due course.	Acting appointments should be made in accordance with service requirements and the management should certify that the relevant officers

lists of assignments, and payment vouchers relating to the payment of allowances. Furthermore, the operational activities such as, preparation of financial statements of the Corporation, management of assets, management of bank accounts and expenditure and collection of lease rent income had not been executed efficiently and timely.

execute their responsibilities properly.

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| e) | Section 38(e) of the National Audit Act, No. 19 of 2018 requires the Accounting Officer that all audit queries be answered within the specified time as required by the Auditor General. However, 05 audit queries issued during 16 October 2023 to 10 September 2024 had not been answered even up to the date of this report. | Answering the audit queries had been delayed due to retirement of all the officers. The information so requested will be furnished in due course. | The Audit queries should be answered expeditiously. |
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3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>Instructions had been given to the Secretary to the Ministry of Trade, Commerce and Food Security as per the Cabinet Decision dated 10 July 2023 that a Committee of officers should be appointed to decide on further actions to be taken on assets and liabilities and subsidiary companies of the Corporation and liquidation of Co-operative Wholesale Establishment; and, the report of the Committee be furnished to the Cabinet within 02 months. After a delay of 11 months, the Cabinet Memorandum containing the report of that Committee had been presented to the Cabinet on 23 August 2024. Accordingly, approval of the Cabinet had been given on 02 September 2024 to liquidate the Corporation. Nevertheless, the Cabinet Decision had not been implemented even up to the date of 31 October 2024.</p>	<p>Not answered.</p>	<p>Actions should be taken in accordance with Cabinet Decision.</p>

3.3 Transactions of Contentious Nature.

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
a) A number of 51 lorries of the Corporation had been sold through open competitive bidding during the period from November 2023 to January 2024, but 43 lorries equivalent to 84 per cent, had been sold only to 02 buyers.	It was recommended that the compensation for retirement of employees as per the Cabinet Paper, should be earned through deposits of the CWE and the balance should be earned through the sale of lorries. As such, information was revealed that some of the lorries had been sold accordingly. Further information will be made available in due course after examining the transactions on the sale of lorries and the relevant tender documents.	Decisions should be taken efficiently to ensure maximum benefits for the Corporation when selling properties.
b) The buyers had been informed through the letter of award that payments should be made on lorries within 10 days of receiving the letter. However, receipts of payments for 18 lorries had delayed by 08 to 62 days.	This matter will be looked into and informed in due course.	The dues should be recovered within the specified time.
c) During the period from 20 December 2023 to 26 June 2024, a sum of Rs. 183,985,149 had been received with respect to 51 lorries sold. Those funds had been credited to the bank accounts operated by the Lanka Sathosa Company Ltd.	Not answered.	Money received from the sale of assets of the Corporation should be credited to bank accounts of the Corporation.

3.4 Idle and Underutilized Assets

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
a) It was found at the field inspection on 25 September 2024 that 37 lorries and 02 motorcycles belonging to the Corporation had remained idle at the yard of the transport division. As those vehicles remained parked for about one year exposing to natural disasters without being covered, the vehicles were decaying. It was also observed that 02 lorries that did not exist physically in the Corporation had been sent to garages for repairs over 02 years ago.	Not replied.	Security of assets should be ensured and the assets should either be used at maximum efficiency or disposed in a suitable manner.
b) The two paddy processing complexes of the Corporation in Higurakgoda and Pannegamuwa with a processing capacity of 2,000 Kg of paddy per hour which had been remained underutilized for 18 years had remained idle even as at 20 August 2024.	Due to compulsory retirement of all the employees, the related detailed information in that connection could not be found.	Assets of the Corporation should be efficiently used for generating income.