

Co-operative Wholesale Establishment - 2017

The audit of operations of the Co-operative Wholesale Establishment for the year ended 31 December 2017 was carried out under my direction in pursuance of provisions in Article 154(1) of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 6 of the Co-operative Wholesale Establishment (Amendment) Act, No.12 of 1969. The financial statements for the year 2017 which should be presented in terms of Section 13 (6) of the Finance Act, had not been presented even by 20 September 2019. My observations on the performance of the Corporation for the year under review, which I consider should be presented to Parliament in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka, appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

2. Financial Statements

2.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements and the draft Annual Report of the Corporation should be presented to the Auditor General within 60 days after the closure of the year of accounts. However, the financial statements relating to the year 2017 had not been presented to Audit even by 20 September 2019.

2.2 Existence of Assets and Liabilities

Details on assets, liabilities, income and expenditure shown in the financial statements as at 31 December 2016, prepared by the Corporation for the last time appear below.

Description	2016
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	Rs.
<u>Assets</u>	
Non-current Assets	6,854,600,350
Current Assets	861,720,868

Total	7,716,321,218
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<u>Equity and Liabilities</u>	
Equity	1,388,648,519
Non-current Assets	4,801,949,399
Current Liabilities	1,525,723,300

Total	7,716,321,218
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Total Income	2,635,144,827
Total Expenditure	3,138,593,202

Deficit	503,448,375
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2.3 Going Concern of the Corporation

The Corporation had sustained continuous losses from the year 2000 to the year 2013. As such, the net assets had diminished to a negative value of Rs.7,710,099,424 as at the end of the year 2013. The negative value of net assets decreased to Rs.2,764,039,908 in the year 2015 due to the surplus of Rs.5,780,204,145 generated as a result of the revaluation carried out in the year 2014. Treasury Bonds valued at Rs.4,397,000,000 issued by the General Treasury as liabilities of the Corporation had been settled by the General Treasury and had been converted into equity capital in the year 2016. As such, the net assets of the Corporation had taken a value of Rs.1,388,648,519.

2.4 Accounts Receivable and Payable

The following observations are made.

- (a) The Corporation had purchased a stock of dates required for the Ramazan Festival on behalf of the Department of Muslim Religious and Cultural Affairs in the years 2017 and 2018. Moreover, action had not been taken even by 14 September 2018 to recover transport charges valued at Rs.1,413,417 and a sum of Rs.599,526 receivable as cargo clearance fees from the harbour.
- (b) The operations of the agency in distributing Milco products commenced in the year 2016 had been completely discontinued by February of the year 2018 and a sum of Rs.94,163,920 had been recoverable by 31 July 2018 to the Corporation from Government and private institutions by sale of products.
- (c) Sums of Rs.117,688,923 and Rs.8,833,158 had been recoverable as at 14 September 2018 and for the year 2016 respectively for supply of transport services to the Lanka Sathosa Ltd., in the year 2017.

(d) Action had not been taken even by 14 September 2018 to recover the loan of Rs.1,000,000 granted on short term credit basis in the year 2011 to the Consumer Services Authority and the interest thereon.

(e) According to a decision of the Sub-committee on Cost of Living, the Corporation had imported 110,966 metric tons of rice from India during the period from 25 August 2017 to 18 April 2018 and the said rice had to be sold at a price lower than the cost and that loss had to be covered by the General Treasury. A loan amounting to Rs.7,525,575,423 had been obtained by the Corporation from a state bank for importation of rice. The loan further payable by 10 September 2018 amounted to Rs.6,307,788,128 while a sum of Rs.1,854,265,072 was receivable from the Treasury for the loss from sale of rice at a low price.

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

In terms of Section 2.2 (a) of the Co-operative Wholesale Establishment (Amendment) Act, No.31 of 1991, the funds of the Corporation can be invested only in Public Companies. Contrary to that, 02 State Companies namely, “Sathosa Economic Centre Services (Pvt) Ltd.” had been established by investing a nominal share capital of Rs.10 per share.

2.6 Legal Action instituted against/ by the Corporation

The following observations are made.

(a) Thirty seven cases had been filed against the Corporation by 04 institutions and 32 persons by the end of the year under review claiming compensation of Rs.86,397,096 and the Corporation had paid compensation of Rs.5,590,457 relating to 11 cases during the year under review.

(b) The Corporation had filed 11 cases against 07 institutions and 04 persons, claiming compensation of Rs.101,695,558 and a sum of Rs.2,735,000 had been recovered thereby.

3. Operating Review

3.1 Performance

3.1.1 Planning

The following observations are made.

(a) In terms of Public Finance Circular No.01/2014 of 17 February 2014, a Corporate Plan had been prepared so as to cover the period from the year 2017 to the year 2020 for achieving the vision and mission of the Corporation. Nevertheless, it had not been reviewed in a timely manner.

- (b) In terms of Public Finance Circular No.01/2014 of 17 February 2014, the Action Plan had been prepared relating to the year under review. However, the Human Resources Development Plan, Loan Repayment Plan and the Internal Audit Plan had not been included therein.

3.1.2 Function and Review

The following observations are made.

- (a) As indicated in the Performance Report of the Corporation for the year 2017, attention had not been paid in the year 2017 to fulfil the objective of “Carrying out research and development activities to invent/generate modernized goods”.
- (b) The following observations are made in respect of the progress of the functions planned to be commenced and implemented in the year under review by the Corporation.
- (i) Even though it had been planned to purchase goods valued at Rs.1,000,000,000 from the local market to reduce the fluctuation in the price of selected consumer goods in the market and to establish a fixed price, it had not been implemented.
 - (ii) Even though provisions of Rs.300,000 had been allocated in the year under review for improving the productivity and the quality of professional life of the employees of the Corporation, only a sum of Rs.70,690 out of the said amount representing 24 per cent had been spent therefor.
 - (iii) Even though it had been planned to establish 10 mobile sales outlets during the year under review, no mobile sales outlets had been established.
 - (iv) It had been planned to enter into agreements with Government institutions/organizations to increase the transport income of the Corporation and to add 05 new motor vehicles to the vehicle pool on lease method to increase the transport income. However, those functions had not been performed during the year under review.
 - (v) It had been planned to use the capacity of 02 rice mills at Pannegamuwa and Hingurakgoda up to the maximum level of 20,000 metric tons for improving the productivity and efficiency of processing rice of the Corporation. However, the capacity used was only 1.3 metric tons which represented about 07 per cent of the total capacity.
 - (vi) Even though it had been planned to create new opportunities for joint venture activities relating to new businesses between the Corporation and main investors or to introduce or carry out new products and services, the said objectives could not be achieved in the year under review.

- (vii) Even though it had been planned to supply essential goods valued at Rs.800,000,000 to external parties during the year under review to expand the trade capacity of the Corporation, the value of goods supplied amounted to only Rs.242,000,000. It represented only 30 per cent of the expected value.

Moreover, it had been planned to import 7,000 metric tons of goods under the free trade agreement in the year for expanding the capacity of the Corporation. Nevertheless, the quantity of goods imported by the Corporation was 3,850 metric tons representing 55 per cent of the expected value.

- (viii) Even though the Corporation had expected to establish 200 distribution outlets during the year under review, no distribution outlet whatsoever could be established.
- (ix) The expected income from sale of Basmati rice, prawns and red dhal had been Rs.940,000,000, Rs.548,000,000 and Rs.118,000,000 respectively during the year. However, the actual income amounted only to Rs.135,500,000, Rs.73,700,000 and Rs.87,100,000 respectively.
- (x) The expected income from renting out buildings belonging to the Corporation was Rs.248,000,000 in the year 2017 while the income shown in accounts amounted to Rs.225,700,000. Moreover, it had been planned in the year to carry out building repairs of 16,000 square feet in extent belonging to the Corporation. Nevertheless, building repairs had not been carried out in the year.

3.2 Management Activities

The following observations are made.

- (a) The Corporation had vested assets to the assessed value of Rs.54,722,228 in Lanka Sathosa Ltd., and a proper agreement had not been entered into even by 20 September 2018 for obtaining money or company shares therefor.
- (b) Even though the Corporation had invested a sum of Rs.9,923,710 in a private company in the year 1999, no dividends whatsoever had been received from the year 1999 to the year 2017 due to continuous losses sustained by the said company.
- (c) Action had not been taken even in the year 2017 to repay the loan of Rs.275,000,000 granted by the General Treasury in the year 2006 for the purchase of trade goods.
- (d) Even though a percentage above 95 per cent of the income of 05 preceding years from the Packing Division had been received from Lanka Sathosa Ltd., an agreement had not been entered into between the two parties in that connection. Moreover, the dependence of the Packing Division on a single institution in such a manner is risky. Nevertheless, the Management had not paid attention towards creating alternative opportunities.

- (e) Thirty six buildings belonging to the Corporation had been leased out to a value less than the market value prevailing at present. As such, an income of Rs.56,007,600 had been deprived of annually at the rate of Rs.4,667,300 per month and the Management had failed to recover any rent whatsoever in the year 2017 for 03 buildings. Accordingly, the Corporation had been deprived of an annual lease income of Rs.5,385,960 at the rate of Rs.448,830 per month.
- (f) The Corporation had given out 39 lots of properties belonging to the Corporation on lease basis to 14 Government and private institutions to a monthly lease value of Rs.6,227,414 without entering into a proper lease agreement.
- (g) A lorry valued at Rs.1,456,368 distributed among sales assistants after being purchased on financial lease basis by the Corporation under “Gamata Saviya Sathosa Badiya” Project commenced in December 2014, had not been transferred to the Corporation up to now, despite the elapse of over a period of 02 years after discontinuing the said project.
- (h) Lanka Sathosa Ltd. pays a value less than the value mentioned in the Invoice issued by the Co-operative Wholesale Establishment to Lanka Sathosa Ltd. and the amount so received less in 16 instances of audit test checks had been Rs.742,438. Action had not been taken to recover the outstanding amounts from Lanka Sathosa Ltd. by calling for explanations therefor. Moreover, due to this, in the computation of Value Added Tax, the value of invoices had to be based. As such, Value Added Tax had to be paid for an amount not received to the Corporation.
- (i) Even though the Milco Project had been completed by 31 January 2018, the Management had not given prior notice to the relevant lorry owners thereon. As such, in terms of agreements, a sum of Rs.416,000 had to be paid as the hire for 3 lorries with freezer facilities for February without obtaining services.

Moreover, a sum of Rs.112,000 had been paid for the month of January in 2018 for a lorry for which the period of agreement had expired in December 2017 and a sum of Rs.224,000 had been paid as well during two months in the year 2017 despite engaging the said lorry in relevant running and without freezer facilities.
- (j) Action had not been taken even by 04 October 2018 to identify the income, expenditure, profit/loss and remaining stocks relating to 4 main projects implemented by the Corporation during the year 2017.

3.3 Staff Administration

The approved cadre of the Corporation totaling 324 posts comprised of 25 posts in the Management Grade, 51 posts in the level of Management Assistant and 248 posts in the Primary level while the excess cadre and vacancies were 220 and 34 respectively by 31 July 2018.

4. Sustainable Development

4.1 Achievement of Sustainable Development Goals

Every Government institution should act in terms of Year 2030 Agenda of the United Nations on sustainable development and the Co-operative Wholesale Establishment had been aware of the manner in performing the functions that come under its scope and roughly identified the targets required for reaching the goals and several indices relating thereto. Nevertheless, the provisions therefor had not been allocated and included in the Action Plan and identified the human and physical resources necessary for their implementation.

5. Accountability and Good Governance

5.1 Unresolved Audit Paragraphs

The unresolved audit paragraphs are given below.

Reference to Audit Report	Paragraph
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(a) Paragraph 4.2 of 2011	Misplacement of electric motors of 12 containers valued at Rs.5,097,445
(b) Paragraph 4.8 of 2011	One hundred and forty rice processing machines costing Rs.14,501,998 imported by the Corporation in September 2006 remaining idle inside the Corporation even by 13 September 2016.
(c) Paragraph 2.2.3 (e) of 2012	Failure in taking action even by the end of the year under review to recover a sum of Rs.71,561,640 receivable from the Lanka Sathosa Ltd. as the annual lease rent and the foreign liquor licence fees for the year 2011.
(d) Paragraph 4.3 (b) of 2012	Construction of rice mills costing Rs.78,978,504 by the Corporation in 2 stores of the Food Commissioner's Department obtained on rent basis, without obtaining the approval of the Food Commissioner's Department.
(e) Paragraph 2.2.3 (d) of 2012	Even though the profit from the sale of motor vehicles amounted to Rs.5,101,356, it had been shown in the financial statements as Rs.5,892,489 and as such, the overstatement of the profit from the sale of motor vehicles by a sum of Rs.791,133 in the financial statements.

- (f) Paragraph 2.2.4 (b) of 2012 Non-reconciliation of the debit balances totalling Rs.27,584,061,602 related to 168 Assets and Expenditure Accounts and the credit balances totalling Rs.30,129,471,178 related to 110 Liabilities and Income Accounts with the financial statements in the examination of the trial balance for the year 2012.
- (g) Paragraph 2.2.4 (b) of 2012 Even though a short term loan obtained by by the Corporation from People' Bank under TR Loan under Current Liabilities had been shown in the Balance Sheet amounted to Rs.207,050,943 according to the Letter of Confirmation of Balances sent by the Bank, the said loan balance amounted to Rs.207,097,942.
- (h) Paragraph 2.2.5 (a) of 2012 Failure in taking any action up to now by the Management on the difference of a fee of Rs.18,450 relating to a quantity of 15,000 kilograms on the total quantity of white sugar received to the Packing Division up to 31 December 2012 and 23,514 packets or the risk of the deprivation of income relevant to the shortage of 170,119 kilograms of packing material.
- (i) Paragraph 2.2.3 (a) iii of 2013 In the comparison of the trial balance with the financial statements, the disclosure of a difference of Rs.299,798,933 in balances of 03 accounts.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls -----	Observations -----
(a) Accounting	(i) Non-use of code numbers for Ledger Accounts (ii) Non-use of remarks accurately for Journal vouchers (iii) Non-attachment of supporting documents relating to the voucher properly
(b) Control over Stocks	Failure in conducting physical stock verifications annually and non-identification of present value of stocks.
(c) Control over Operations	(i) Failure in taking adequate measures to recover outstanding lease rents

- (ii) Failure in paying attention to lease out the lease properties belonging to the Corporation by entering into lease agreements properly or to renew the expired agreements or to vest the properties again after completing the lease activity due to weaknesses in administration of lease properties.
- (iii) Leasing out the properties owned by the Corporation to a value less than the market value prevailing at present.
- (iv) Even though the Corporation had taken action to revise the lease rent of lease properties in accordance with the present market rates, in instances in which the institutions that had taken the properties on lease, are not agreeable therefor, failure of the Corporation in holding adequate discussions to make the institutions agreeable on its present lease rent.
- (v) Action not taken on the deficiencies occurred and finding out the responsible persons therefor
- (vi) Failure in entering into an agreement for supply of transport facilities.
- (vii) Failure in providing invoices within a reasonable period.
- (viii) In loading of goods to Sathosa lorries from the stores of Lanka Sathosa Ltd., unavailability of supervision of a responsible officer therefor.
- (ix) Failure in taking action to minimize the period for sending invoices to Lanka Sathosa Ltd. and in obtaining monies receivable to the Corporation within a certain specific period.