

Transactions Report of the Co-operative Wholesale Establishment -2021

The audit of the operational activities of the Co-operative Wholesale Establishment for the year ended 31 December 2021 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 6 of the Co-operative Wholesale Establishment (Amendment) Act , No.12 of 1969 . The financial statements for the year 2021 required to be submitted in terms of Section 13(6) of the Finance Act had not been submitted even as at the date of this report. 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 of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Responsibilities of Management and Those Charged with Governance For the Financial Statements

Each audit entity should maintain its own 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 National Audit Act No.19 of 2018. The Annual Financial Statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual Performance Report of such instances as may be specified by the rules in terms of Section 16 (2) of the 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 responsible for presenting of the Annual Reports related to the entity which was being audited to parliament.

1.3 Presentation of Financial Statements

According to the Section 6.5.1 of the Public Enterprises Circular PED/12 dated 02 June 2003, financial statements along with the draft annual report should be submitted to the Auditor General within 60 days after the close of the accounting year. However, the financial statements for the year of 2021 had not been presented to the audit even as at the date of this report.

2 Audit Observations

2.1 Assets, Liabilities, Income and Expenditure

The details of assets, liabilities, income and expenses shown in the financial statements as at 31 December 2020 last prepared by the Authority are given below.

Item of the financial statement	Value
	Rs.
Assets	

Non-current Assets	6,458,394,856
Current Assets	4,592,315,521

Total Assets	11,050,710,37
	=====
Equity and Liabilities	

Equity	(2,941,269,573)
Liabilities	

Non-current Liabilities	8,310,536,743
Current Liabilities	5,681,443,207

Total Liabilities	11,050,710,377
	=====
Total Revenue	433,018,066
Total expenditure	1,051,993,321

Surplus/(Deficit)	(618,975,255)
	=====

2.2 Receivable and Payable

The following observations are made.

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	After reporting to the Board of Directors regarding the rent due for a long period of time, a committee has been appointed to look into the matter and to recover it . The said committee is taking actions to reconcile the relevant accounts and recover	Rent receivable should be recovered.

dues , and it has been difficult to find the sources of the outstanding balances existing over a long period of time. Matters have been reported in this regard in the audit and management committee meeting also and actions will be taken to write off the outstanding balances existing over a long period of time or to recover the outstanding of rent. Further, the letters have already been sent to the entities from which the outstanding rent to be received informing to pay the outstanding immediately. In this regard, the relevant committee has also been instructed to report to the board of directors as soon as possible.

- | | | |
|--|--|--|
| <p>(b) The Corporation had not taken steps to recover any amount from the balance of Rs. 64,563,436 stated under trade receivable even in the year under review.</p> | <p>A committee was appointed by the Board of Directors to reconcile and recover the balance due after reporting the facts to the Board of Directors and they will reconcile with the relevant entities and recover these balances.</p> | <p>The receivable balances should be recovered.</p> |
| <p>(c) The amount of Rs.24, 202,985 which is the balance due from related parties had not been recovered by the Corporation during the year under review.</p> | <p>The finance department does not have adequate evidence to answer how this balance has been made of. Therefore, as it is not possible to recover the balance mentioned here, financial reports have been prepared by making provisions for impairment as shown in the accounting standard number 36.</p> | <p>The receivable balances should be recovered.</p> |
| <p>(d) According to the information of the accounting system, the amount due from Lanka Sathosa Company and Paddy</p> | <p>Lanka Sathosa has proposed a payment plan to pay the amount due for the sale of imported rice and local rice. Lanka Sathosa</p> | <p>The receivables and payable balances should be settled by reaching an agreement with the relevant institutions.</p> |

Marketing Board to the Corporation was Rs. 2,108,027,028 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. 966,666,192 respectively as at 31 December of the year 2022. 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 entities to recover and pay the amounts.

- | | | |
|---|--|---|
| <p>(e) Rs.36,751,643 receivable to the Corporation from sundry debtors existing since the year 2011 had not been recovered even as at 31 December of the year under review.</p> | <p>agreed to make monthly payment of Rs.25,000,000.00 to CWE for 06 years from 01 September, 2022. The Board of Directors has appointed employees to reconcile and to recover the balances of the Paddy Marketing Board and Lanka Sathosa and they are carrying out related activities . Accordingly, the Corporation has already taken necessary measures to recover and settle the relevant balances.</p> <p>Since it is not possible to recover the balance mentioned here, financial reports have been prepared by making provisions for impairment as indicated 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.</p> | <p>The receivable balances should be recovered.</p> |
|---|--|---|

3. Operational Review

3.1 Performance

Audit Issue

Management Comment

Recommendation

(a) According to the Co-operative Wholesale Establishment (Amendment) Act No. 12 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.

It was not possible to carry out the activities of the organization in a formal manner due to the imposition of quarantine curfew, the imposition of travel restrictions, etc. under the spread of the Covid pandemic situation in the country during the year 2021. CWE involved in the implementation of government policies away from the main objective of the CWE due to the spread of the Covid pandemic situation during the year 2021. Objectives of the Act should be achieved.

- (b) According to the action plan of the Corporation in the year 2021, it was observed that the following activities which had been planned to increase the financial performance and increase the customer satisfaction had not been achieved..

- | | | | |
|-------|--|---|---|
| (i) | To increase the profit percentage monthly by purchasing and distributing green gram, chickpeas, pepper and dried fish locally. | Due to the spread of the Covid pandemic, this project could not be successfully continued. Further, although it was planned to buy and export local agricultural crops, those projects failed due to the imposing import restrictions under the loss of foreign reserves, and the decrease in harvest due to the policy of the government to ban chemical fertilizers and promote the use of organic fertilizers. | Activities planned should be achieved |
| (ii) | To increase the percentage of profit through the import and distribution of essential food such as red lentils sprats, tinned fish, chickpeas and dry chilies. | Due to the Covid pandemic situation in the country, the Corporation did not get the opportunity to import red lentils, white sugar, sprats, garlic, tinned fish, chickpeas, and green gram that were expected to be imported. | -do- |
| (iii) | Export 60,000 buckets of betel monthly and increase revenue from second quarter. | Export had to be stopped due to several problems that arose in this regard. <ul style="list-style-type: none"> • Disruption of activities that should be implemented , due to the closure of the country from time to time for a long period of time due to the Covid epidemic situation in the country. • Absence of a local agency or agent to recover the money if the betel stock is not paid any way in the instances where the buyers agree to pay money after receiving the betel stock. | Constraints should be taken into consideration in the planning stage. |

- Having to incur a heavy loss or expense due to the instances where the stock may have to be brought back on the rejection of the stock on the basis of the matter that betel is not of the proper standard or the misplacement of the stock .
- Unable to get warehouse and office facilities at Katunayake Airport premises and having to incur a higher cost for the purpose , as it has to be exported within a very short period of time after harvest.

- | | | | |
|------|--|--|--|
| (iv) | Setting up organic vegetable mobile shops by allocating 5 Lorries of 5 metric tons. . | The project had to be stopped as the approval from the Ministry of Trade was not received although the project was started with the approval of the Board of Directors. | The planning should be done paying attention to the relevant matters . |
| (v) | To increase the rent by re-valuation of the land to increase the percentage of monthly rent. | These activities have been abandoned due to difficulties in case of travelling to the relevant places for the government valuation officers to revalue the assets due to the imposition of quarantine curfew, the imposition of travel restrictions, etc. under the spread of the Covid pandemic situation in the country during the year 2021. Also, during that year, the business activities had been disrupted and as the property /premises/ warehouse could not be rented out as they were not used for business activities on | Planned activities should be completed as much as possible. |

the basis of rent due to the imposition of quarantine curfew, 10% was added to the existing rent on the approval of the board of directors, and the rent was increased and at present all the assets have been revalued and the actions are being taken to collect the rent at the rate of government valuation.

(vi) To develop car park facilities and increase the percentage of revenue from car parks. It has not been possible to increase the revenue percentage due to the restriction of traffic to Colombo due to the imposition of quarantine curfew, the imposition of travel restrictions, etc. under the spread of the Covid pandemic situation in the country during the year 2021. The actions are being taken to increase the percentage of revenue in the year 2022 and the revenue percentage has been increased by providing facilities to the government offices and insurance companies to park their vehicles in the car park. -do-

(vii) Increase rental income through installation of A.T.M. machines and digital advertisements. No arrangements were made for this in those years as absence of demand for advertisements and absence of a good response from banks to ATM machines due to the closure of business places, incurring losses etc. under the imposition of quarantine curfew and travel restrictions, as a result of the ongoing Covid pandemic situation in the country in the year 2020 which was continued to the year 2021 . -do-

(viii)	Increase rice production by increasing the capacity of rice mills from 2 metric tons to 2.5 metric tons.	A board paper no. 2020/1822/08 was submitted to the board of directors on 10.02.2020 for the purpose and it was submitted to improve the capacity and quality of rice mills under the observations and recommendations of the Institute of Postharvest Technology. However, the rice mills were repaired and started operation again. The project had recorded a profit of 3.2 million rupees in the year 2020. However, there was no opportunity to get the required paddy supply to CWE and there was a situation of not getting the paddy to CWE due to the purchase of paddy was made directly by only the Paddy Marketing Board on the intervention of the government. Therefore, the paddy milling approaches could not be reached the expected level during that year.	-do-
--------	--	---	------

(ix)	Branding of lorries by calling quotations through newspaper advertisements.	Branding of lorries has been temporarily stopped due to the limited business opportunities and lack of profit percentage due to the Covid pandemic situation and limitation of promotion and advertising expenses by minimizing expenses based on government policies. However, it has been decided to call interests in this regard again in the future.	-do-
------	---	---	------

3.2 Identified Losses

Audit Issue	Management Comment	Recommendation
(a) The amount of square feet	It was not possible to take actions	The property of the Corporation

that was idle without renting out of the properties owned by the Corporation had been 161,136 during the year under review and compared to the rent mentioned in the asset revaluation report submitted in the year 2015, the Corporation had lost an annual income of Rs.52,585,440 due to the idleness of these buildings.

- | | | |
|--|--|---|
| <p>(b) The loss of income incurred by the Corporation from the leased properties had been Rs.107, 040,868 during the year under review due to fixing the price per square foot less than the prices mentioned in the revaluation report.</p> | <p>The respective lessees have used their own funds to repair some of the warehouses/properties that have been given less than the prices mentioned in the valuation report and for that the approval of the board of directors have been taken and steps have been taken 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> |
|--|--|---|

3.3 Management inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
<p>(a) 13 warehouses owned by the Corporation had been commenced to renovate in the year 2019, under the provisions of the ministry, and the Corporation had spent Rs. 82,525,632 for the renovation as at 31 December of the year under review. Although all the renovation</p>	<p>the supervision of this project also became problematic due to factors such as taking a long time to get the budget allocation existed under the previous ministry to the new ministry, as a result , long delays in the due payment of the work completion bills submitted by the contractors, increase the price levels of the economy mentioned in the bill of quantities also</p>	<p>Planned activities should be completed within the stipulated time.</p>

works should be completed in the year 2020, only 09 warehouses had been completed. by the end of the reviewed year.

in that situation, the arrest of the engineer of the company which was in charge of this project, the delay in 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

.
09 of these 13 warehouses have been completed by now, despite the above-mentioned pressures that could not be controlled by the organization.

(b) The Corporation had lost an income of Rs. 18,819, 050 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 and it had not been recovered up to the date of this report.

Actions have been taken to recover the loss and to take disciplinary actions by conducting the investigations against the employees responsible to the shortfall occurred from the lorries occupied for the transportation of goods to Lanka Sathosa .

Shortfall in transit should be recovered from the responsible parties.

(c) 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 the said guarantees had not been verified as authentic documents. Further, the rice had been

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.

continuously issued to the company even though it had not paid the debt continuously and 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.

- (d) The amount due from a buyer for the sale of imported rice was Rs.5,574,811 as at 31 December of the year under review according to the legal proceedings.. 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 person called W.R. Vijitha 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 has been conducted and the audit report has been submitted to the Criminal Investigation Department.
- The recoverability should be confirmed in case of supply of goods on credit basis.
- (e) The Corporation had paid Rs.4, 254,625 to a private entity during the year under review for cleaning services without entering into an agreement.
- Tenders could not be called due to the fact that the government has imposed quarantine curfew, travel restrictions as well as the fact that government offices had conducted by calling only essential employees due to the spread of Covid 19 during the year under review. The same cleaning service institute has been selected in the year 2021 as per the procurement guidelines at the same price of the year 2020 and the service has been obtained subject to the same conditions of the year 2020. A document containing
- Arrangements should be made to enter into written agreements regarding service contracts.

necessary guidelines/ instructions has been provided to the said institution and payments are made accordingly.

- | | | |
|---|--|---|
| <p>(f) Although 98 percent of the transportation service income of the Corporation has been received from the transportation services provided to Lanka Sathosa Company, the Corporation had not entered into a written agreement with Lanka Sathosa Company for transportation services.</p> | <p>Although, negotiations were held several times regarding the agreement with Lanka Sathosa, the agreement could not be reached due to the inability of the two parties to reach an agreement regarding the amount of kilometers to be paid/charged for one destination. However, Lanka Sathosa pays the invoice value on kilometer basis, and negotiations are being carried out to enter into a contract.</p> | <p>Actions should be made to enter into written agreements regarding service contracts.</p> |
| <p>(g) The Corporation had charged transportation charges during the year under review, based on the rates charged in 2017 in case of providing transportation services and the rates charged for lorries had not been revised within 05 years after the year 2017.</p> | <p>There were no major changes in fuel prices from the year 2017 to year 2022 and payments were made at prevailing market prices during that period. However, although the requests to increase the prices were made, Lanka Sathosa Company rejected the said requests mentioning that the inability to increase their costs. However, the rates charged for lorries were revised in the year 2022.</p> | <p>The rates charged should be revised periodically.</p> |

3.4 Idle or underutilized Assets

The following observations are made.

Audit Issue	Management Comment	Recommendation
<p>(a) The Corporation owned 97 vehicles as at 31 December of the year under review and out of which 11 vehicles were taken out of service and remained idle throughout the year and the actions had not been taken in</p>	<p>Although there were 97 vehicles in the year 2021, 11 vehicles remained idle, and a tender was called for disposing of those vehicles. However, the tender was canceled due to practical and legal issues and the transport manager suggested that the vehicles should be repaired and used again, and accordingly it was decided</p>	<p>The property of the corporation should be used efficiently to generate income.</p>

terms of the asset to convene a report by the Board of management circular No. Directors regarding whether the said 05/2020 dated 02 vehicles can be repaired and used October 2020 . again. It has been decided to reconsider this in the year 2023.

- (b) The Higurakgoda and Paddy is procured from the Paddy The property of the Pannegamuwa rice Marketing Board for these two corporation should be processing complexes complexes and they issue paddy only used efficiently to owned by the for cash basis. Accordingly, in the generate income. Corporation have been year 2021, the stock of paddy held by underutilized for the Paddy Marketing Board was approximately 18 years limited and the stock was released and both the rice simultaneously to CWE and the private sector. Accordingly only the complexes have a limited quantity of paddy that was processing capacity of able to obtain to CWE during the 2000 kg of rice. period was milled. However, in the year Further, CWE has not directly under review, the two purchased paddy and as it is mainly rice complexes remained produced wet paddy from farmers, idle without any rice CWE does not have the drying production, and the two facility, which needs to be kept in rice processing storage for milling for several months complexes employed . Also, CWE employees, including the from 03 to 20 security department, have been employees in the year deployed for these two complexes, under review and the and even if those employees are employee cost including removed from the two complexes and wages, overtime and employed elsewhere in CWE, they allowances had been have to be paid their salaries. Rs.13, 902,442.

Since the employees attached to Higurakgoda and Pannegamuwa rice processing complex are trained employees for rice processing, they cannot be used for other tasks, and even though the warehouses are idle, those employees were used for maintenance of the warehouse, cleaning of rice processing machines, and land protection.

- (c) 04 warehouses attached to The CWE could not continue the The property of the the Higurakgoda and process of paddy milling in the year Corporation should be

Pannegamuwa rice processing complex owned by the Corporation remained idle throughout the year under review.

2021, due to the lack of paddy stock in the possession of the Paddy Marketing Board. As a result, the Higurakgoda and Pannegamuwa rice processing complex owned by the Corporation remained idle, and the warehouses attached to the Higurakgoda and Pannegamuwa rice processing complex were prepared to be used for the storage of mill-related products and rice, and the said warehouses have not been decided to use for other purposes or to rent out for other parties during that year. Further, due to the Covid pandemic, those warehouses have been reserved to store essential food in case of need.

used efficiently to generate income.