

## Transactions Report of the Co-operative Wholesale - 2022

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The audit of the operational activities of the Co-operative Wholesale Establishment for the year ended 31 December 2022 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 2022 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 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.

### 1.3 Presentation of Financial Statements

According to the Section 6.6 of the Operational Guidelines for Public Enterprises Circular published by Public Enterprises Circular No. 01/2021 dated November 16, 2021, 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 2022 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 Corporation are given below.

Item of the financial statement -----	Value ----- Rs.
Assets -----	
Non-current Assets	6,458,394,856
Current Assets	4,592,315,521
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<b>Total Assets</b>	<b>11,050,710,377</b> =====

Equity and Liabilities	
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Equity	(2,941,269,573)
Liabilities	
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Non-current Liabilities	8,310,536,743
Current Liabilities	5,681,443,207
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<b>Total Liabilities</b>	<b>11,050,710,377</b>
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Total Revenue	433,018,066
Total expenditure	1,051,993,321
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<b>Surplus/(Deficit)</b>	<b>(618,975,255)</b>
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## 2.2 Receivable and Payable

The following observations are made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Long outstanding balances amounting to Rs.879,289,082 had not been recovered or actions had not been taken in terms of Financial Regulation 113(3) (a) in respect of such receivable balances.	It has been reported that the Corporation does not have the necessary documents to identify the balances due to the burning of the premises including the office of the financial manager of the CWE, the departure of the employees under the voluntary compensation scheme in 2004 and the fact that the relevant reports have not been obtained from the existing computer system. Actions are being taken in terms of Financial Regulation 113 (3) (a).	Actions should be taken to recover long outstanding receivable balances or to follow Finance Regulations 113(3) (a) regarding the same.
(b) Actions had not been taken to settle the long outstanding payable balances amounting to Rs.2,922,023,966 or to take necessary measures regarding the same in terms of Financial Regulations 570 and 571.	Actions will be taken to make necessary adjustments in the financial statements of 2022 according to the instructions given in the audit and management meeting.	Actions should be taken to settle the long outstanding payable balances or to take necessary measures regarding the same in terms of Financial Regulations 570 and 571.

- (c) The amount due from Lanka Sathosa Company and Paddy Marketing Board to the Corporation was Rs.2,151,533,978 and Rs. 94,059,338 respectively and the amount payable by the Corporation to Lanka Sathosa Company and Paddy Marketing Board had 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 number of years and the Corporation had not reached an agreement with the relevant entities to recover and pay the amounts.
- Balances have been verified by the finance department as correct.
- The receivables and payable balances should be settled by reaching an agreement with the relevant institutions.
- (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 the said guarantees had not been verified as authentic documents. Further, the rice had been continuously issued to the company even though it had not paid the debt continuously and 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
- 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.

case was pending in the Magistrate's Court of Fort in this regard.

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| <p>(e) An amount of Rs.5,574,811 had been shown in the ledger accounts as at 31 December of the year under review as the amount due from a buyer for the sale of imported rice. The Corporation had complained to the Criminal Investigation Department in this regard due to the denial by buyer that rice was obtained on credit basis.</p> | <p>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. Investigations carried out by the Criminal Investigation Department have not been completed yet.</p> | <p>-do-</p> |
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### 2.3 Non-compliance with Laws, Rules and Regulations

The instances where the rules and regulations were not complied with are stated below.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p> <p>(a) Financial Regulations 103(1) (b) , 104 (1), 104 (3) and 104 (4)</p>	<p>The actions had not been taken in terms of the Financial Regulations regarding the shortfall in transit occurred during the transportation amounting to Rs.18,819,050 from the revenue due for the</p>	<p>Lanka Sathosa Company has informed CWE regarding the shortfall in transit occurred during the transportation from the income due for the year 2018 and 2019 for the transportation services of Lanka Sathosa Company and actions have been taken in the year 2019 to recover them</p>	<p>Actions in respect of the said loss should be taken in terms of the Financial Regulations .</p>

years 2018 and 2019 from the responsible for the transportation employees by investigating the service provided by lorries that are reported by the Corporation to shortfalls.  
Lanka Sathosa Company.

(b) Financial Regulations 756	Inventory survey for the year under review had not been conducted by the Corporation.	Reply had not been given.	Actions should be taken in terms of Financial Regulations.
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**3. Operational Review**  
**3.1 Performance**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(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.</p> <p>(i) To procure and supply the requirements of co-operative societies.</p> <p>(ii) To carry on business as exporters of and as wholesale and retail dealers in goods of every description.</p> <p>(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.</p>	<p>Reply had not been given.</p>	<p>Objectives of the Act should be achieved.</p>
<p>(b) An action plan for the year 2022 had not been prepared by the Corporation .</p>	<p>Although n action plan for the year 2022 had not been prepared , a draft action plan had been prepared. An action plan for the year 2023 has been</p>	<p>An action plan should be prepared.</p>

prepared and approved by the Board of Directors.

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| <p>(c) It was observed that the transport division of the Corporation is being incurred losses continuously as the losses amounting to Rs. 69,742,863, Rs. 72,409,444, Rs.50,018,838, and Rs. 75,143,787 had been recorded during the years of 2019, 2020, 2021 and 2022 respectively .</p>  | <p>Reply had not been given.</p> | <p>Objectives should be achieved efficiently and effectively.</p>             |
| <p>(d) It was observed that Green Super shop, which was started by the Corporation in October 2022 at a cost of Rs.20,000,000 had incurred losses continuously as Rs. 828,518, Rs. 810,382 and Rs. 703,105 in the months of October, November and December respectively and the administrative expenses had exceeded the sales income.</p> | <p>Reply had not been given.</p> | <p>Business activities should be carried out efficiently and effectively.</p> |

### 3.2 Idle or underutilized Assets

The following observations are made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) The Corporation owned 98 vehicles as at 31 December of the year under review and out of which 11 vehicles were taken out of service and remained idle over a period of 03 years.</p>	<p>These vehicles have been decided to be sold in the year 2023 and actions are being taken to dispose by calling tenders by appointing price committees.</p>	<p>The properties should be used efficiently to generate income.</p>
<p>(b) The Higurakgoda and Pannegamuwa rice processing complexes owned by the Corporation have been underutilized for approximately 18 years and both of the rice complexes</p>	<p>Paddy is procured from the Paddy Marketing Board for these two complexes and they issue paddy only for cash basis. Accordingly, in the year 2020, the stock of paddy held by the Paddy Marketing Board was limited and the</p>	<p>-do-</p>

have a processing capacity of 2000 kg of rice. However, in the year under review, the two rice complexes remained idle without any rice production and 4 affiliated warehouses also remained idle. The two rice processing complexes employed from 03 to 12 employees in the year under review and the employee cost including wages, overtime and allowances had been Rs. 10,592,296.

stock was released simultaneously to CWE and the private sector. Accordingly only the limited quantity of paddy that was able to obtain to CWE during the period was milled. Further Since the employees attached to 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 protection of land.

(c) The amount of square feet out of the properties owned to the Corporation which was idle without renting out was 218,187 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. 35,015,743 due to the idleness of these buildings.

Renting out has temporarily suspended due to the CWE is planned to be restructured. However, this matter was discussed again with the line ministry and arrangements are being made to provide the idle properties on rental basis.

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### 3.3 Management inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
(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 2021. The Ministry had reimbursed expenses of Rs.62,490,367 as at 31 December 2020. Although all	Renovations of 09 out of 13 warehouses have completed by the year 2022 under the pressures beyond the control of organization' such as delay in payment of contract bills due to long period taken to obtain budget allocations, delay in work by contractors as price revisions were requested due to increase in commodity prices in the market, delay in projects due to Covid-19 pandemic situation etc.	Planned activities should be completed within the stipulated time.

the renovation works should be completed in the year 2020, only 09 warehouses had been completed by year 2022. The remaining amount had not been reimbursed to the Corporation by the Ministry and the said amount had refunded to the Treasury by the Ministry on 28 April 2023.

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| <p><b>(b)</b> The corporation has provided 71,464 square feet of properties at an annual rental income of Rs. 85,730,344 on lease basis in the year 2022 without entering into written agreements. As a result, it is not possible to take legal action on the leased properties.</p> | <p>In case of providing the premises to external parties on rental basis in the year 2022, all approvals such as the basis of rent, rental, number of years, deposit amount, etc. are obtained by the service department and after that, the necessary information are forwarded to the legal department with the relevant approvals for the preparation of agreements. It is observed that the agreements were not referred to the legal department to sign for the relevant year and it has not been referred as proper approval has not been obtained. The year 2023 onwards, both these divisions have been placed under the same officer and accordingly, actions have been taken to sign according to the conditions after obtaining the approval of the Board of Directors.</p> | <p>Written agreements should be entered into in case of leasing out properties..</p> |
| <p><b>(c)</b> Lanka Sathosa company had paid less than the lease rental value mentioned in the invoice due to not being entered into the written agreements,. Accordingly, the income lost to the Corporation in the year 2022 had been Rs. 29,299,695.</p>                           | <p>The arrears are being negotiated. All agreements for the year 2022 have already been signed.</p>  | <p>-do-</p>  |

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- (d) The loss of income incurred by the Corporation from the leased properties had been Rs. 33, 973,380 during the year under review due to fixing the price per square foot less than the prices mentioned in the revaluation report. Arrangements have been made to obtain valuation reports for the properties to be rented in the year 2023. Also, some warehouses and properties had been given to Lanka Sathosa, a sister company of CWE and to subsidiary companies of CWE on rental basis and it is observed that the said properties had been given at a lower price than the assessed price.
- (e) According to the agreement, the tenants should pay the rent on or before the 10th day of the relevant month, and in cases where the payment is delayed by 10 days, an additional 10 percent late fee shouldt be charged for the rent. However, the Corporation had lost a late fee income of 16,272,734 in the year 2022 due to the failure to enter into the agreements and to collect the late fees as per the agreements entered into. If the rent is not paid for the year 2023 by the due date, it has been decided to recover 10% late fee. Late fees should be charged in terms of the agreements.
- (f) Machine parts weighing 41,860 kg in the paddy boiling and drying section of the Higurakgoda rice complex had been sold for an amount of Rs. 4,813,900 during the period from 30 December 2021 and 26 January 2022 without obtaining the approval of the relevant line ministry and although an amount of Rs.10,000 had been paid for obtaining a valuation report on 06 August 2019, a valuation report had not been obtained. The Board of Directors had not given instructions to obtain prior approval of the Secretary to the Ministry . Further, the North Central Provincial Office had asked to send the weights of the equipment to be removed from the plant separately. In order to send the weights separately, parts of the plant should have been removed. It is observed that it has not been possible to weigh separately and inform the assessment office as the technology for that was not available with the Corporation and it is practically impossible to do so. The secretary to the ministry should be informed and obtained approval in case of selling properties and valuation reports should be obtained as well.

- (g) According to the procurement committee report of 08 December 2021 in connection with the above sale, although the relevant persons should have to ensure that the fulfillment of conditions such as presentation of a detailed report by the government valuer and technical evaluation committee on the assessment of weight and quality of iron stock as prescribed and representation of a report certified by the Government Valuer that only unusable iron is sold to the procurement committee along with the prior approval of the secretary to the Ministry for sale of scrap, actions had not been taken accordingly.
- A three-member committee has been appointed to conduct an investigation regarding the former chairman as it has been noted at his own discretion that the matters mentioned therein cannot be fulfilled regardless of the decision of the departmental procurement committee.
- The recommendations of the procurement committee should be implemented.
- (h) Although the chairman of the Corporation had informed to the officers holding the posts of Operations Manager (Transport) Regional Supervisor and Food Safety Adviser by letters numbered CWE/DPC/2021(09)/02/(i) , (ii) and (iii) dated 13 October 2021 to conduct a field inspection and submit an estimate on the amount of iron to be removed, there was no evidence that an estimate had been obtained regarding the sold iron and the iron parts had been sold to the buyer selected from the buyers which offered bids in the procurement process at the price offered by them.
- According the file, it was not revealed that the actions had been taken according to the instructions given.
- A valuation report should be obtained before selling the property.

### 3.4 Unauthorized Transactions

The following observations are made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Although after a repair was completed, foreman or technical officer in charge should certify on the relevant repair order form that the spare parts obtained for the respective vehicle have been fixed to the vehicle and the repair of the vehicle has been properly carried out, such certification had not been made in any order form out of a sample of 100 orders examined relating to repair expenditure amounting to Rs. 3,814,451 .	Reply had not been given.	A responsible officer should certify that the spare parts obtained for the respective vehicle were fixed to the vehicle and that the vehicle has been properly repaired.
(b) The spare parts required to repair vehicles sent to the transport department should be submitted to the warehouse controller under the approval of the transport manager and all material requisitions and receipts related to the 12 months from January to December 2022 had not been approved by the transport manager with the signature.	Reply had not been given.	Receipts of spare parts required for vehicle repairs should be approved by the Transport Manager.

### 3.5 Human Resources Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The approved cadre of the Corporation as at 31 December 2022 consisted of 365 posts and the actual cadre was 292. 37 posts of Management Assistants had been approved and the actual cadre had been 18. The approved cadre for Task	Reply had not been given.	Important administrative and financial subjects should be got accomplished by qualified officials.

Assistants was 120 and the actual cadre was 103. it was observed that important administrative and financial subjects are being covered by the employees holding Task Assistant posts due to the insufficiency of the number Managerial Assistant posts.