

**THE CO-OPERATIVE WHOLESAL
ESTABLISHMENT**

**ANNUAL
ACCOUNTS**

**FOR THE YEAR ENDED
31. 12. 2011**

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
ANNUAL REPORT AND ACCOUNTS
2011

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THE CO-OPERATIVE WHOLESALE ESTABLISHMENT

DIRECTORATE FOR THE YEAR 2011 :

Chairman - Mr. Eraj T. Fernando

Working Director- Mr. K.M.M. Zakir,

Directors - Mr. K.M. Jayathileka
Director - (Treasury representative)
Additional Director General
Dept. of Management Audit.
General Treasury.

- Mr. P. Dharmadasa,
Director (Ministry representative)
Addl. Secretary,
Ministry of Co-operatives and Internal Trade
(resigned with effect from 2011.11.09)

- Mr. M.G.S.M. Mohamed Jaward

- Mr. D.A. Buljans,

- Mr. D.C.L. Lankathileka

- Mr. M.M.P.K. Mayadunne
Director (Ministry representative)
Addl. Secretary, (Planning & Development)
Ministry of Co-operatives and Internal Trade)
(from 2011.11.23 as per Ministry letter)

Annual Report - 2011
Message of the Chairman

I was appointed to the post of Chairman, Co-operative and Wholesale Establishment by Hon. Minister of Industry and Commerce with effect from 15th August 2015. Since then I had to study every field of the institution in detail and I have taken measures to rectify weaknesses and deficiencies of recognized accounting affairs and trade activities.

Accordingly, I have made necessary arrangements to expedite preparing of financial statements for 2012, 2013 and 2014 to identify accounting deficiencies in recording transactions made with Paddy Marketing Board, and take legal actions to recover due money from millers engaged in rice processing. Further, actions were taken to renew lease agreements and enter in to new agreements in view of increasing the lease revenue as renting property of institutions is the major revenue generating method of the institution.

Operations of Pannegamuwa and Higurakgoda rice processing centers that had been idle from 2014, have been started and necessary background has been made to further strengthen present business bonds with Lanka Sathosa and supply some essential food items including rice through our organization.

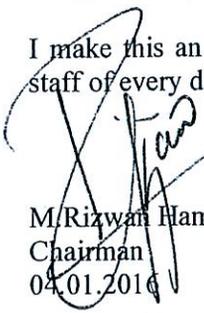
The lorries purchased in the days gone by have been used to the maximum for transport requirements of Lanka Sathosa and measures are being taken for income escalation.

We expect to get relief from the financial difficulties faced by our organization, make Sathosa, an institute engaged in effective economic procedure within the field of state enterprises getting the optimum usage from human and physical resources of the organization remarking renaissance of Sathosa.

I am much grateful for the guidance and contribution of Hon. Minister Rishard Badurdeen, Minister of Industry and Commerce to achieve the said objectives following the policy of H.E the President and Hon. Prime Minister.

Further, I extend my sincere thanks to the Hon. Deputy Minister, Secretary to the Ministry, and entire staff of the Ministry and the Treasury.

I make this an opportunity to thank the Board of Directors, Senior Executive Officers and staff of every division who ever strengthen and encourage me with their tireless co-operation.


M. Rizwan Hameem
Chairman
04.01.2016

Directors' Report of The Co-operative Wholesale Establishment for the year ended 31st December 2011

Directors Board of CWE herewith submits the annual report of Co-operative Wholesale Establishment for the year ends at 31.12.2011 as per the section 14 of Finance Act No.38 of 1971.

01. General:-

Principal activities

The Co-operative Wholesale Establishment established under the Act No.47 of 1949 (known as CWE) stated its business with effect from 01st July 1950.

Initially, the principal objective of CWE was to play the role of a business institute on essential consumer products.

However, measures have been taken in view of facilitating Lanka Sathosa subsequent to the Volunteer Compensation Scheme of 2004 and 2006 presented due to utter financial difficulties faced when carrying out business for the welfare of consumer and farmer community of SriLanka more than 50 years.

02. Review of Business Affairs

Present status of the institution has been stated under the views of Chairman which is a part of Director Board.

Accordingly, actions were taken to further improve the lease of assets to private and public organizations which is the major revenue generating method of the institution, to improve transport division, to provide a fair and efficient service to Lanka Sathosa, to re-start operations of Pannegamuwa and Higurakgoda rice processing centers and distribute quality rice to consumers through Lanka Sathosa marketing network and it is expected to become the authority that controls rice market and price.

Cadre of CWE as at 31.12.2011.

1. Executive	- 07
2. Clerical and parallel grades	- 54
3. Other support grades	- 234

03. Status of the cases against the institution as at 31.12.2011

	Cases as at 01.01.2011	Cases concluded at 2011	Cases being on trial
High Court	15	04	11
District Courts	13	03	10
Magistrate Courts	18	06	12
Labour Tribunal	14	05	09
Labour Investigations	10	02	08
Arbitrary cases	02	01	01
Lay by cases (cases will be used in future)	14	-	14
Appeals	01	-	01

04. Concept of Continuous Maintenance

The institution does not have the possibility to bear earlier financial credits under the circumstances of not having ability to obtain financial assistance from loan granting organizations due to accumulative losses of Rs.8885Mn and deficiencies of working capital of Rs.864Mn. However, since measures were taken to rent out idle buildings owned by CWE and to remove earlier assets, additional finance required for present committee was thereby generated. Hence the Director Board is in the view that it is appropriate to prepare the financial reports of the organization on continuation concept of the institution since business will be carried out for a definite period and it is continuously held at least for 12 months from the date of signing financial reports.

05. Auditors

Auditor General shall be the auditor of the organization in terms of the section 13 (01) of Finance Act No.38 of 1971 to be read with the section 154 (i) of the Constitution of Democratic Socialist Republic of Sri Lanka.

06. Gratitude

We wish to pay our gratitude to HE the President, Hon. Prime Minister, Hon. Minister of Industry and Commerce, Hon. Deputy Minister, Secretary to the Ministry, all the officers of the Ministry and my sincere thanks goes to staff of Finance Ministry, General Treasury and other Ministries who provided us assistance during the year under review.

Our major asset is our staff. We are much thankful for their service and contribution during the year under review.

The Board of Directors extends thanks to the consumer community that provided continuous contribution. Further various statutory organizations, private organizations and our Bankers.

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
INCOME STATEMENT

For the year ended 31st December 2011 2010

(All figures are in Sri Lankan Rupees)

	<u>Note</u>		
Income	02	313,800,611	182,821,640
Less: Cost of Sales	03	261,061,999	180,827,758
Gross Profit/(Loss)		52,738,612	1,993,882
Other Income	04	183,633,557	186,625,740
		236,372,169	188,619,622
Administration & Establishment	05	165,586,679	78,857,485
Selling & Distribution	06	38,067,612	86,462,024
		203,654,291	165,319,509
Profit / (Loss) From Operations		32,717,878	23,300,113
Less : Finance Cost	07	22,510,995	21,000,000
Profit / (Loss) Before Adjusted Treasury Bond Interest		10,206,883	2,300,113
Less : Treasury Bond Interest		323,812,668	323,812,668
Profit / (Loss) Before Taxation		(313,605,785)	(321,512,555)
Less: Provision For Taxation		-	-
Profit / (Loss) For The Year After Taxation		(313,605,785)	(321,512,555)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT

BALANCE SHEET

As at 31st December

(All figures are in Sri Lankan Rupees)

2011

2010

<u>Assets</u>	<u>Notes</u>		
<u>Non Current Assets</u>			
Property , Plant & Equipment	09	1,133,266,809	1,110,517,321
Investment	10	181,852,410	181,852,410
Total		1,315,119,219	1,292,369,731
<u>Current Assets</u>			
Inventory	11	137,862,900	110,518,118
Advance Payment & Receivables	12	31,738,018	-
Short Term Loan & Other Receivable	13	229,248,540	251,112,319
Trade & Other Debtors	14	489,033,342	188,940,497
Related Party Transaction	15	-	3,997,509
Cash at Bank	16	175,491,153	55,269,626
Cash In Hand & Bank	17	28,927,667	6,088,252
Total		1,092,301,620	615,926,321
Total Assets		2,407,420,838	1,908,296,052
<u>Equity and Liabilities</u>			
<u>Stated Capital</u>			
Stated Capital		1,056,590	1,056,590
Reserves	18	1,700,815,901	1,700,815,901
Re-Structuring Reserve	19	2,323,728,130	2,323,728,130
Retained Earnings		(10,541,319,225)	(10,195,851,709)
Total		(6,515,718,604)	(6,170,251,088)
<u>Non Current Liabilities</u>			
Treasury Grant For Bond Interest	20	2,482,355,130	2,158,542,462
Bond Liability	21	4,597,000,000	4,597,000,000
Related Party Transaction	15	161,559,988	-
Retirement Benefit Obligations	22	30,112,068	26,193,505
Lease Creditor	23	17,813,530	-
		7,288,840,716	6,781,735,967
<u>Current Liabilities</u>			
Trade Creditors & Other Payables	24	1,196,678,438	1,036,094,000
Loan Payable to Co-Operative Commissioner	25	220,078,867	50,000,000
Bank Loans	26	183,131,255	209,231,254
Bank Over Draft	27	34,410,165	1,485,919
Total		1,634,298,725	1,296,811,173
Total Equity and Liabilities		2,407,420,838	1,908,296,052

The accounting Policies and notes from an integral part of these Financial Statements,


.....
Chairman


.....
Head of Finance

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT

For the year ended 31st December 2011

(All figures are in Sri Lankan Rupees)

NOTE "A"-PRIOR YEAR ADJUSTMENT FOR TREASURY BOND

Description	Profit/ (Loss)for the Year	Accumulated Loss
Balance As At 31.12.2002		(5,694,706,392)
Balance As At 01.01.2003	(1,162,050,602)	
Treasury Bond Interest	4,209,564,684	
Treasury Bond Discount Value	1,522,544,041	
Treasury Bond Value	(4,397,000,000)	173,058,123
Balance as at 31.12.2003		(5,521,648,269)
Profit for the Year 2004	(970,929,555)	
Amortization Interest in the year 2004	(323,812,668)	(1,294,742,223)
Adjusted Balance as at 31.12.2004		(6,816,390,492)
Profit for the Year 2005	(164,723,497)	
Amortization Interest in the year 2005	(323,812,668)	(488,536,165)
Adjusted Balance as at 31.12.2005		(7,304,926,657)
Profit for the Year 2006	(556,539,593)	
Amortization Interest in the year 2006	(323,812,668)	(880,352,261)
Adjusted Balance as at 31.12.2006		(8,185,278,918)
Profit for the Year 2007	(4,854,299)	
Amortization Interest in the year 2007	(323,812,668)	(328,666,967)
Adjusted Balance as at 31.12.2007		(8,513,945,885)
Profit for the Year 2008	56,294,429	
Amortization Interest in the year 2008	(323,812,668)	(267,518,239)
Adjusted Balance as at 31.12.2008		(8,781,464,124)
Profit for the Year 2009	(387,649,771)	
Amortization Interest in the year 2009	(323,812,668)	(711,462,439)
Adjusted Balance as at 31.12.2009		(9,492,926,563)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT

CASH FLOW STATEMENT

For the year ended 31st December

2011

2010

(All figures are in Sri Lankan Rupees)

OPERATING ACTIVITIES

Cash Generated From Operating Activities (Note A)	198,987,150	314,993,724
Prior Year Adjesment	(31,861,731)	(381,412,591)
Grativity Paid	(518,470)	(902,870)
Net Cash Inflow / (Outflow) From Operating Activities	166,606,948	(67,321,737)

CASH FLOW FROM INVESTING ACTIVITIES

Purchase Of Property, Plant & Equipment	60,155,787	(2,920,801)
Proceed From Sales of Fixed Assets	11,972,000	30,554,635
Net Cash Inflow / (Outflow) From Investing Activities	48,183,787	27,633,834

CASH FLOW FROM FINANCING ACTIVITIES

Lease Creditors	17,813,531	-
Increase in Short Term Borrowings	(26,099,999)	50,000,000
Net Cash Inflow/ (Outflow) From Financing Activities	(8,286,468)	50,000,000
Net Increase/ (Decrease) In Cash & Cash Equivalents	110,136,694	10,312,097
Cash & Cash Equivalents As At The Beginning Of The Year	59,871,961	49,559,864
Cash & Cash Equivalents As At The End Of The Year	170,008,655	59,871,961

(All figures are in Sri Lankan Rupees)

2011

2010

NOTE A - CASH GENERATED FROM OPERATING ACTIVITIES

Net Profit Before Taxation & Extraordinary Items	(313,605,785)	(321,512,555)
Depreciation	28,505,697	19,576,219
(Profit)/Loss on sale of fixed Assets	(3,071,400)	(30,709,278)
Gratuity Provision	4,437,033	4,781,414
Creditors Written -Off Transferred to Reserve	-	542,164,547
Operating Profit / (Loss) Before Working Capital Changes	(283,734,455)	214,300,347

Working Capital Changes

(Increase) / Decrease In Inventories	(27,344,782)	(80,575,418)
(Increase) / Decrease In Trade & Other Receivables	(305,969,575)	301,771,203
Increase/ (Decrease) In Trade & Other Payables	330,663,305	(444,315,076)
Increase/ (Decrease) In Tresery Grant	323,812,668	323,812,668
Increase/ (Decrease) In Other Payables	161,559,988	-
Total	482,721,605	100,693,377
Cash Generated From Operating Activities	198,987,150	314,993,724

NOTE B - CASH AND CASH EQUIVALENTS

	<u>31.03.2011</u>	<u>31.12.2010</u>
Cash In Hand & at Bank	204,418,820	61,357,878
Bank over Draft	(34,410,165)	1,485,919
Net Cash Equivalents	170,008,655	59,871,961

THE CO - OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31.12.2011

NOTE 01 - ACCOUNTING POLICIES

CORPORATE INFORMATION

General

The co - operative Wholesale Establishment or CWE is a public establishment established under Parliament Act no. 47 of 1949. The registered office and principal place of providing services is located at No. 27, Vauxhall Street, Colombo 02.

Going Concern

The establishment had substantial accumulated losses in the past and as at the balance sheet date its current liabilities exceeded current assets by Rs. 665 (Mn). Further the establishment is unable to obtain Financial assistance from banking institutions on account of over - due loans. However, in the year under review the establishment continued wholesale trading operations with Co - operative Societies and few private institutions and all procurements financed from proceeds of disposal of idle properties and Rs. 50(Mn) granted by the Commissioner of Co-operative Development and registrar of Co-operatives. Accordingly, the Directors are of the opinion that it is appropriate to prepare the financial statements on the going concern basis, which assumes that the establishment will continue its operational existence for the foreseeable future and would continue to meet its financial obligations as and when they fall due for a period of at least twelve months from the date of signing these financial statements.

Principal Activities and Nature of Operation

The principal activity of the establishment is providing wholesale and retail facilities of essential foods item to consumers in Sri Lanka, providing Milling facility to Lanka Sathosa and Providing Transport Facility to Lanka Sathosa.

Number of Employees

The number of employees at the end of the year was 295 (2010/247)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Policies

Basis of Preparation

The balance sheet, Income Statement, Statement of Changes in equity, Cash flow statement and accounting policies and notes (Financial Statements) of the co - operative Wholesale Establishment, have been prepared in accordance with the standard issued by the Institute of Chartered Accountants Of Sri Lanka. The Financial Statements of the Establishment Comply with the Sri Lanka Accounting Standard. The Financial Statement of the Establishment is prepared under the historical cost convention except for revaluation of certain Property, Plant and Equipment. The said Financial Statements are presented in Sri Lankan Rupees (Rs.)

THE CO - OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31.12.2011

Comparative Information

The accounting policies have been consistently applied by the Establishment and are consistent with that Used in the previous year. Previous year's figures and phrases have been re - arranged wherever necessary to conform to the current year's presentation.

Assets and Bases of Their Valuation

Property, Plant and Equipment

The property, plant and equipment are measured at cost/fair value less accumulated depreciation and any accumulated impairment losses.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the asset. When a property, plant and equipment comprise components that have different useful lives, they are accounted for as separate items of property, plant and equipment. Carrying amounts of property plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. All the property, plant and equipment are initially recorded at cost. Where items of property, plant and equipment are subsequently revalued, any increases in the carrying amount are credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity, any excess and all other decreases are charged to the income statement .Revaluation of property, plant and equipment are undertaken by professionally qualified independent valuers.

Subsequent Cost

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item Will flow to the establishment and the cost of the item can be measured reliably. Property, plant and equipment are derecognized upon replacement, disposal or when no future economic benefits are expected from its use. Any gain or losses arising on derecognition of property plant and equipment is included in the income statement in the year it is derecognized. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

THE CO - OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31.12.2011

Depreciation

Provision for depreciation is calculated based on their estimated useful lives of each part of an item of property, plant and equipment other than land. Depreciation is calculated using straight line method to all other property, plant and equipment including leased assets allocates their cost or revalued amounts to their residual values over their estimated useful lives.

The rates used are as follows:

Building	5%
Plant & Machinery	10%
Motor Vehicles	20%
Furniture & Fittings	33 1/3 %
Office equipments	10%
Computer & Accessories	33 1/3 %
Warehouse Equipment	10 %
Other Equipment	10 %
Tools	10 %

Investments

Unquoted investments held on a long term basis are classified as non-current investments and stated at cost. Provision is made for diminution in value of investments only if such diminution is expected to be other than temporary.

Inventories

Inventories are valued at the lower of cost and net realizable value, after making provision for obsolete and slow moving items. Net realizable value is the estimated selling price in the normal course of business less estimated cost of realization and/or cost of conversion from their existing state to saleable condition. The cost of inventories is inclusive of cost of purchase, Cost of conversion and other costs.

Receivables

Trade receivables are recognized at the amounts that they are estimated to realize less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the establishment will not be able to collect the amounts due in full. The amount of the provision is the difference between the asset's carrying amount and the estimated realizable value. The amount of the provision is recognized in the income statement within selling and distribution expenses. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

THE CO - OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31.12.2011

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and at bank and short term highly liquid investments, readily convertible to known amounts of Cash and Subject to insignificant risk of change in value.

For the purpose of cash flow statements, cash and cash Equivalents comprise cash in hand and at bank net of outstanding bank overdraft. Interest paid is classified as operating cash flows, interest and dividend received are classified as investing cash flows while dividend paid are classified as financing cash flows for the purpose of presentation of cash flow statement, Cash flow statement is prepared based on the indirect method.

Employee Benefits

Defined Benefit Plan - Retiring Gratuity

Full Provision has been made on account of retiring from the first year of service of the employee in conformity with the Sri Lanka Accounting Standard No. 16 - " Retirement Benefit Costs" at half (1/2) month's salary for each year of service.

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for gratuity for an Employee arises only on completion of five years of continued service.

The Liability is not externally funded nor is it actuarially valued. This item is grouped under Non Current Liabilities in the Balance Sheet.

Defined contribution plan - Employees' Provident Fund and Employees' Trust Fund

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligations to pay Further amounts.

All the employees who are eligible for Employees' Provident Fund and Employees' Trust Fund are covered by relevant contribution funds in line with the respective statutes. Employer's contribution to the defined contribution plans are recognized as an expense in the income statement when incurred.

Leases

Finance Leases

Assets are classified as acquired by finance leases when by an agreement, the establishment substantially assumes the risk and rewards incidental to the ownership of an asset. Assets acquired by the way of finance lease are measured at an amount equal to the lower of their fair value and the present value of minimum lease payments at the inception less accumulated depreciation and accumulated impairment losses.

THE CO - OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31.12.2011

Operating Leases

When the lessor effectively retains substantially all the risks and rewards of an asset under the lease agreement, such leases are classified as operating leases. Payments under operating leases are recognized as an expense in the income statement over the period of lease on a straight line basis.

Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized when the establishment has a legal or constructive obligation, as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of such obligation can be made.

All contingent liabilities are disclosed, as notes to the financial statements unless the outflow of resources is remote.

Commitments

All material commitments as at the balance sheet date have been identified and disclosed in the notes to the financial statements.

Impairment of Assets

Assets that have an indefinite useful life, for example land, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment annually or at an earlier date where events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Taxation

Income Tax

The provision for income tax is based on the element of income and expenditure in the financial statements and is computed in accordance with the provisions of the Inland Revenue Act.

Value Added Tax on Taxable supplies

Value Added Tax on taxable supplies is paid according to the provisions of the Value Added Tax Act No. 14 of 2002 and the amendments thereto.

THE CO - OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31.12.2011

Segment Information

The Establishment primary segments are wholesale and retail Services (E.g. Rice Milling, Transport). There are no distinguishable components to be identified as geographical segment for the Establishment. The business segments are reported based on the Establishment management and internal reporting structure.

Inter segment pricing is determined at prices mutually agreed by the divisions.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest bearing loans, borrowings and expenses, corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets, which are expected to be used for more than one accounting period.

Events Occurring After the Balance Sheet Date

All material post balance sheet events have been considered, disclosed and adjusted where applicable.

New Accounting Standards Issued But Not Effective as at Balance Sheet Date

The new Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka comprising accounting standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS) will be adopted by the establishment effective from 1st January 2012. The Establishment is currently in the process of evaluating the potential effect of the adoption of these standards on its financial statements. Such impact has not been quantified as at the reporting date.

Income Statement Presentation

The income statement is presented on the "function of expenses" method, as it represents fairly the elements of the Establishment performance and prescribed by Sri Lanka Accounting Standards.

Revenue

The revenue of the establishment represents invoiced value of goods to customers.

THE CO - OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31.12.2011

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefit will flow to the establishment and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and value added taxes, net of sales within the Establishment.

The following specific criteria are used to recognize revenue.

Revenue from sale of goods is recognized when the significant risk and reward of ownership have been transferred to the buyer, the consideration is recoverable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods.

Rental income is recognized on an accrual basis.

Interest income is recognized as it accrues.

Dividend income is recognized on an accrual basis when the establishment's right to receive the dividend is established.

Gains or losses of revenue nature arising from the disposal of property, plant and equipment and other non-current assets, including investments, are accounted for in the income statement, after deducting from the net sales proceeds on disposal the carrying amount of such assets.

All other income is recognized on an accrual basis.

Disposal of Property, Plant and Equipment

Gain or losses on the disposal of property, plant and equipment have been accounted for in the income statement.

Expenditure

Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenses incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement.

Government Securities

Bond issued by treasury on behalf of establishment which is born through settlement of six commercial bank loans. The present value of the bond present in the balance sheet of establishment under the long term liability. The difference between last year present value and par value of bond compare with current year and charge to the income statement over the life of the bond.

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

NOTE 02 - TURNOVER

Trading Income	313,800,611	185,605,726
Less : Turn Over Tax	-	2,784,086
Total	313,800,611	182,821,640

According to the SLAS 29 Income (revenue) shall be measured at the fair value of the consideration received or receivable from ordinary activities.

NOTE 03- COST OF SALES

Opening Stock	31,220,951	29,942,699
Add : Purchases (Note No -03.1)	248,161,635	261,403,176
Direct Cost (Note No 03.2)	25,675,503	-
	305,058,089	291,345,875
Less -Written Off Transport Department Stock	2,360,907	-
Less : Closing Trading Stock	41,635,183	110,518,117
	43,996,090	
Total	261,061,999	180,827,758

According to the SLAS 05 (Inventories), Inventories are assets ,

- a) Held, for sale in the ordinary course of Business
b) In the process of production for such sale or
c) in the form of materials or supplies to be consumed in the production process or in rendering of service.

Therefore the organization has recognized only trading stock for the purpose of calculating cost of sales and transport department stock and packing material stocks have been removed from the opening stock balance for the year of the 2011

Stock at Transport Department (Closing Stock)	2,360,907.00
Building Department Stock	4,143,032.00
Packeting Materials	454,513.00
	6,958,452.00

In the year 2011 amounting of Rs.2,360,907 stock related to Transport Department has charged to profit & loss account because there were no physical stock as at 31/12/2011. Building Department stock at Rs.4,143,032 and packing material stock of Rs.454,513 has not consider as trading stock when calculating the cost of sale of the year 2011. Transport Department stock value amounting Rs 2,360,907 has been charge to the profit & loss in year 2011.

Co-operative business was commenced of the end of the year 2010 for the purpose of supply essential Consumer items to the consumer at the concessionary prices and control the fluctuations of the market prices in the local market. In year 2011 incurred gross loss of Rs: 36, 097,856.26 and net loss Rs: 72,421,133 from this operation. these transactions (including in the opening stock, purchasing, sales and closing stock relevant to the co-operative operation) has been removed from calculating of net profit/loss in year 2011 from CWE Income Statement. the ultimate effect of the year 2011 of this operation has been adjusted to the Loan Payable account -Co-operative Commissioner.

Co - Operative Account Details in year 2011

Stores	Opening Stock	Purchasing	Closing Stock	Gross profit
Kurunagala	9,441,119	152,921,041	2,972,703	54,953,002
Anuradhapuraya	-	45,091,392	515,507	11,017,373
Aranayaka	-	44,801,297	2,596,556	33,709,257
Badulla	-	16,849,791	1,843,895	25,386,113
Kandy	-	73,690,286	4,876,996	72,760,235
Maligawaththa	-	89,394,349	139,244	(24,152,246)
Mathara	13,335,290	93,879,912	1,742,261	33,329,656
macclum	51,923,213	429,883,602	9,646,992	(353,933,052)
Monaragala	-	72,532,431	762,040	49,235,370
polonnaruwa	-	9,687,222	1,780,610	4,416,677
Rayhnapuraya	-	62,278,696	1,740,447	48,809,563
Vauniya	-	48,910,596	1,182,271	8,370,196
Total	74,699,622	1,139,920,615	29,799,522	(36,097,856)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

NOTE 05 - ADMINISTRATION & ESTABLISHMENT EXPENSES

Directors Fees & Allowences	1,021,308	648,275
Accomadation Expences	21,081	-
Agreement Renewal Charges	11,200	-
Staff Salaries & Wages (Personal Cost)	70,219,323	34,540,779
Staff Allowences	839,832	-
Clening Expences	2,193,342	-
Dialog Tv Charges	11,691	-
Inquiry Charges	15,375	-
Postage Expences	34,835	-
Security Expences	2,384,729	-
Service Cahrges	8,062	-
Entertainment Cost	438,336	-
Staff Bonus	214,000	111,500
Donation	201,435	-
Grativity	4,437,033	2,390,707
Rates & Taxes	5,987,062	2,216,599
Audit Fees	-	800,000
Staff Welfare	1,076,236	731,264
Depreciation	28,505,697	9,788,111
Employee's Provident Fund	4,964,102	2,439,960
Employee's Trust Fund	1,277,875	609,990
P.A.Y.E	13,662	-
Over Time Payment	5,130,535	-
Advertising	1,006,591	104,780
Staff Compensation	-	618,890
Insurance	577,754	252,550
Legal Fees	742,541	1,393,797
Professional Fees	38,260	134,738
Traveling & Transport	757,684	3,967,908
Surcharge	-	-
Consultation Charges	30,000	-
Traveling Allowences	167,702	-
Treatment Allowences	1,056,455	-
Electricity	16,897,246	6,226,896
Water Expences	1,237,751	-
Telephone & Fax	1,155,427	472,331
Printing & Stationery	2,106,798	200,645
Member Ship Fees	33,500	-
Vehicle Allowences	1,059,925	-
Staff Fuel Allowences	1,526,685	-
Repair & Maintenance	545,286	8,330,387
Uniform Cost	50,975	-
Misselanios Expences	152,555	-

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

Medical Bill	5,500	-
Serve Charges	25,000	-
N.B.T Expences	853,038	-
V.A.T Expences	5,514,191	-
Un Clambel Vat	198,170	-
Panelty Charges	3,933	-
Sundry	836,962	2,877,378
Total	165,586,679	78,857,485

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

NOTE 06 - SELLING & DISTRIBUTION

	2,019,715	34,540,779
Sales Staff Salaries & Wages	-	2,439,960
Employee's Provident Fund	-	609,990
Employee's Trust Fund	-	111,500
Staff Bonus	40,375	-
Paking Charges	6,096,040	-
Transport Expences	7,769,433	-
Fuel Transport Department	-	2,390,707
Grativity	-	731,264
Staff Welfare	-	3,980,408
Traveling & Subsistence	498,732	3,454,099
Rent,Rates & Taxes	-	472,331
Postage & Telephone	-	2,877,377
Sundry Expences	-	28,418
Profit/Loss on Price Reduced Stock	-	6,226,896
Electricity	-	104,780
Advertising & Sales Promotion	-	200,645
Printing & Stationery	-	9,788,111
Depreciation	18,957,238	-
Repair & Maintanance Cost-Premisus	2,002,756	8,330,387
Repairs & Maintenance-Transport Department	-	8,630,612
Provision for Bad & Doubtful Debts	-	134,738
Professional Fees	2,500	-
weigh brige Charges	-	252,550
Insurance	28,931	-
Discounts	432,303	537,582
Licence Fees	219,590	618,890
Staff Compensation	38,067,612	86,462,024
Total	38,067,612	86,462,024

NOTE 07 - FINANCE COST

Debit Tax	70,078	-
Bank Charges	714,767	-
Lease Interest	583,566	-
Leasing Other Expences	142,584	-
Interest on Peoples Bank Loan	21,000,000	21,000,000
Total	22,510,995	21,000,000

Bond Interest Charges

323,812,668	323,812,668
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NOTE 08 - EXCEPTIONAL ITEMS

CWE Current Account balance as at 31.12.2003 with Sathosa Retail Ltd ,after incorporatiating the restructuring transacton written -off as per clause 6.2(d) of the purchase agreement	-	381,412,591
Total	-	381,412,591

THE CO-OPERATIVE WHOLESALERE ESTABLISHMENT

(Notes to the Financial Statement contd...)

(All figures are in Sri Lankan Rupees)

NOTE 09 - PROPERTY, PLANT & EQUIPMENT

Description	Cost			Depreciation				WDV As at 31.12.2011	
	As at 01.01.2011	During The Year		As at 31.12.2011	For the Year				As at 31.12.2011
		Additions	Disposals		As at 01.01.2011	Charges	Disposals		
Free Hold Land	955,510,235	-	-	955,510,235	-	-	-	955,510,235	
Lease Hold Land	2,311,930	-	-	2,311,930	-	-	-	2,311,930	
Building on Free Hold Land	220,090,417	13,666,639	-	233,757,056	141,147,694	10,989,657	152,137,351	81,619,705	
Building on Lease Hold Land	2,288,203	-	-	2,288,203	2,158,667	48,335	2,207,002	81,201	
Buildings on Crown Land	82,252,459	8,016	-	82,260,475	49,615,711	3,200,400	52,816,111	29,444,364	
Vauxhall Garage	16,460,291	-	-	16,460,291	10,919,699	823,015	11,742,714	4,717,577	
Plant & Machinery	88,163,606	127,000	-	88,290,606	87,928,645	215,712	88,144,357	146,249	
Motor Vehicles	39,475,999	22,588,950	12,082,000	49,982,949	7,474,800	7,895,200	12,188,600	37,794,349	
Furniture & Office Equipment	47,778,931	13,190,312	-	60,969,243	46,469,112	4,201,628	50,670,740	10,298,503	
Computer Accessories	76,270,112	2,104,512	-	78,374,624	75,574,944	726,857	76,301,801	2,072,823	
Ware House Equipment	49,955,807	196,750	-	50,152,557	49,588,546	19,675	49,608,221	544,336	
Tools & Equipment	45,494,529	8,273,546	-	53,768,075	44,657,321	385,218	45,042,539	8,725,536	
Total	1,626,052,519	60,155,726	12,082,000	1,674,126,245	515,535,139	28,505,697	540,859,436	1,133,266,809	

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

NOTE 10 - INVESTMENT

Sathosa Motors Limited	10	10
Ingrin Institute of Printing & Graphics	9,923,710	9,923,710
Sathosa Retail Ltd	171,928,690	171,928,690
Total	181,852,410	181,852,410

Ingrin Institute of Printing & Graphics

Sathosa Printers wound up by end of April 1996. All equipment of Sathosa Printers was given to the army by the Export Development Board. (The Export Development Board is the promoter for Ingrin Institute under the guidelines of the ministry)

In 1997 the institute was registered as a public unquoted Limited liability company and the premises were given to Ingrin Rs.10,992,371 shares were issued to CWE on 27.07.1999.

Sathosa Retail Ltd

In 2002 under the programme of reform Sathosa Retail Ltd was incorporated. The company Windup in 2006.10.23. The Co operative Wholesale Establishment request Rs.534,929,374.30 as claim and Rs.42,623,064.07 received by settlement of case on 2013.06.07.

NOTE 11 - INVENTORY

Wholesale Stock	41,635,183	103,559,666
C & D Class Stock	-	28,418
	41,635,183	103,588,084
Less: Provision For Condemned Goods	-	28,418
	41,635,183	103,559,666
Stock at Transport Department	-	2,360,907
Building Department stock	4,143,032	4,143,032
Packing Materials	454,513	454,513
Crates Stock	61,830,650	-
Co-operative Project Stock	29,799,522	6,958,452
	96,227,717	-
Total	137,862,900	110,518,118

INVENTORY RELATED TO C.W.E OPERATION

Closing Stock	137,862,900	110,518,118
<u>Stock Related to Other Operation</u>		
Building Department Stock	4,143,032	4,143,032
Transport Department Stock	-	2,360,907
Packeting Materials	454,513	454,513
Crates Stock	61,830,650	-
Co-operative Project Stock	29,799,522	-
Total	96,227,717	6,958,452
Closing Stock Related to C.W.E Operation	41,635,183	103,559,666

The entity consider stocks Related to all operational segments as a balance of Closing Stock as at 31/12/2011 in the Balance Sheet. It consist Rs.61,830,650 Stock Related to Crates operation. This operation Comence on 2011.06.01 for the purpose of minimizing damages course to fruits & vegetables when transporting , Storing & distributing . This stock Supply from the Nilkamal, Phenix and Nippon plastic company . The CWE participate for this operation as a Commission Agent . Rs.29,799,522 worth of stock Related to the Co-operative project. The Co-operative operation Comenced end of the year 2010, CWE participated for this operation as a facilitator. Also Included stock related to Building Department & Packeting Department worth of Rs 4,597,545 . The stock belongs to C.W.E is Rs 41,635,183.

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

NOTE 12 - ADVANCE PAYMENT & OTHER RECEIVABLES

Rent Advance (Sub Note 12.1)	2,680,161	-
<u>OTHER ADVANCES</u>		
Advance Payment	(90,110)	-
Advance Payment other	8,867,263	-
Deposit Sub - 1434305	18,145,017	-
	<hr/>	
<u>Pre Paymentes</u>	26,922,170	-
Pre Payment - Maintanance Agreement	6,131	-
Pre Payment - Revenue Licency Fees	16,250	-
Pre Payment - Vehicle Insurance	270,546	-
Pre Payment other	347,954	-
Refundable Deposit	752,700	-
Traveling Advance	60,000	-
Withholding Tax	682,107	-
	<hr/>	
Total	2,135,687	-
	<hr/>	
	31,738,018	-
	<hr/>	

Sub Note 12.1- RENT ADVANCE PAYMENT

Ambalangoda U.C.	112,296	-
C.R. Balasuriya	90,000	-
Closing Balance as at July' 99	1,291,149	-
G.M. Ceylon Electrcity Board	42,000	-
J.M.H Banda (Dambulla)	63,000	-
Kalutara U.C.	2,550	-
L.H Lionel de Silva	0	-
Lanka Gneral Trading Co.	480,000	-
Mt. Lavinia M.C.	31,512	-
Polghawela P.S.	37,200	-
R.A.R.V. Ranasighe	40,000	-
Rece.Commi. Coop. to MPCS	3,105	-
Sitawakapura U.C.	46,548	-
Thalawakele Plantation Ltd	46,800	-
Urban Council Sri Jayawardanapura	119,000	-
Walapana Pradeshiya Saba	75,000	-
Welimada Pradeshiya Saba	200,000	-
Total	<hr/>	
	2,680,161	-
	<hr/>	

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

NOTE 13 - SHORT TERM LOAN & OTHER RECEIVABLE

Building Materials Corporation	10,000,000	10,000,000
Prepayment & Advance	31,441,577	31,537,005
Dues From Treasury	100,000,000	100,000,000
Staff Loan & Others - (Sub Note 13.1)	11,268,558	-
Salaries & Staff Ledger Control	-	4,189,707
Claims Receivable	6,932,494	6,932,494
H/C 164/2011 KALANI KUMARI	178,870	-
Lekage Recovery	84,717	-
E.S.E Receivable	2,330,788	-
Sundry & Other Debtors	-	31,441,577
National security Levy -Advance	234,321,615	234,321,615
	396,558,619	418,422,398
Less : Provision for Dought Full Debtors (Sub Note 1	167,310,079	167,310,079
Total	229,248,540	251,112,319

Sub Note 13.1 - STAFF LOAN & OTHERS

Festival Advance for Staff	382,391	-
Leave Encashment	4,280,780	-
Salary Suspend	1,889,122	-
Staff Compensation	658,262	-
Staff Loan	3,214,712	-
The CWE Tran. Thrift & Credit Coop Socity	843,292	-
Total	11,268,558	-

Sub Note 13.2 - PROVISION FOR DOUGHT FULL DEBTORS

Prepayment & Advance	3,053,701	3,053,701
Dues from Treasury	100,000,000	100,000,000
Salaries & Staff Ledger Control	418,971	418,971
Claims Receivable	693,249	693,249
Sundry & Other Debtors	3,144,158	3,144,158
National Security Levy -Advance	60,000,000	60,000,000
Total	167,310,079	167,310,079

NOTE 14- TRADE & OTHER DEBTORS

Co-operatives	-	11,437,214
Government Department	-	11,873,103
Corporations	-	3,179,405
Sundry Debtors	75,150,422	
Rent Debtors	47,680,654	124,551,943
Refundable Deposits	(3,757,672)	-
Other Debtors	-	117,377,418
Trade Debtors	449,438,524	-
Dishonoured Cheque	3,830,707	3,830,707
	572,342,635	272,249,790
Less : Provision for Doughtfull		
	Sub Note 14.1	
	83,309,293	83,309,293
Total	489,033,342	188,940,497

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

Sub Note 14.1- PROVISION FOR DOUGHTFULL DEBTORS

Co-operatives	1,143,721	1,143,721
Government Department	1,187,310	1,187,310
Corporations	317,941	317,941
Sundry Debtors	11,737,742	11,737,742
Dishonoured Cheque	383,071	383,071
Rent Debtors	68,539,508	68,539,508
Total	83,309,293	83,309,293

NOTE 15 - RELATED PARTY TRANSACTION

Sathosa Retail Ltd	-	142,408,758
Sathosa Security Ltd (Economic Services)	5,495,923	4,441,677
Lanka Sathosa Ltd	-	24,202,985
	5,495,923	171,053,420
Less : Provision for Doughtfull Debtors (Sub Note 15)	167,055,911	167,055,911
Total	(161,559,988)	3,997,509

Sub Note 15.1 - PROVISION FOR DOUGHT FULL DEBTORS

Sathosa Retail Ltd	142,408,758	142,408,758
Sathosa Security Ltd	444,168	444,168
Lanka Sathosa Ltd	24,202,985	24,202,985
Total	167,055,911	167,055,911

NOTE 16 - CASH AT BANK

Commercial Bank - S/ A - 3001	59,231,626	-
Commercial Bank - S/ A - 9102	107,053,544	54,640,071
Commercial Bank - 707	488,719	-
Commercial Bank - 708	1,610,233	-
Commercial Bank - 709	6,477,476	-
HNB Savings	266,032	266,032
People's Bank Savings	665	665
Sampath Bank UPB	141,589	141,589
Seylan Bank	221,269	221,269
Total	175,491,153	55,269,626

NOTE 17 - CASH & CASH EQUIVALENTS

Day Sheet Control	1,375,438	1,375,438
Domestic Foreign Currency	2,660,872	2,660,872
Excess Debits	32,842	32,842
Postage & Petty Cash Imprest	2,042,553	2,042,553
Samart Card	(23,453)	(23,453)
Suspence-Bank	3,725,512	-
Cash	2,399,483	-
Chq-In-hand	13,851,168	-
Petty Cash Control A/C (Sub Note 17.1)	2,863,252	-
Total	28,927,667	6,088,252

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
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(All figures are in Sri Lankan Rupees)

Sub Note 17.1- PETTY CASH CONTROL A/C

Petty Cash Control A/C - Head Office	(30,652)	-
Petty Cash Control A/C - Badulla	53,006	-
Petty Cash Control A/C - Kaduruwella	26,573	-
Petty Cash Control A/C - Kandy	128,454	-
Petty Cash Control A/C - Anuradapura	1,075	-
Petty Cash Control A/C - Rathnapura	90,060	-
Petty Cash Control A/C - Wharf Dept	543,050	-
Petty Cash Control A/C - Aranayake	44,025	-
Petty Cash Control A/C - Batticaloa	2,311	-
Petty Cash Control A/C - Building Department	51,960	-
Petty Cash Control A/C - Katharagama	2,000	-
Petty Cash Control A/C - Kurunegala	66,872	-
Petty Cash Control A/C - Legal Department	30,276	-
Petty Cash Control A/C - Mathara	23,050	-
Petty Cash Control A/C - Monaragala	144,481	-
Petty Cash Control A/C - Paketing Section	15,000	-
Petty Cash Control A/C - Security Office	1,000	-
Petty Cash Control A/C - Maligawattha	141,314	-
Petty Cash Control A/C McCa. Engineering	(44,875)	-
Petty Cash Control A/C - MaCallum Office	658,258	-
Petty Cash Control A/C - Nuwara Eliya	30,520	-
Petty Cash Control A/C - Services Dept.	(25)	-
Petty Cash Control A/C - Transport	405,623	-
Petty Cash Control A/C - Pannegamuwa	477,176	-
Petty Cash Control A/C - Welisara	2,721	-
Total	2,863,252	-

NOTE 18 - RESERVE

Capital Reserve	32,444,879	32,444,879
General Reserve	94,477,411	94,477,411
Loan Redemption Reserve A/C	300,289,603	300,289,603
Vehicle Replacement Reserve	72,218,000	72,218,000
Revaluation Reserve	1,201,386,008	1,201,386,008
TOTAL	1,700,815,901	1,700,815,901

NOTE 19 - RE-STRUCTURING RESERVE

Treasury Grants for settlement of VRS	1,506,563,583	1,506,563,583
TR Loan	275,000,000	275,000,000
Creditors Written - Off	542,164,547	542,164,547
Total	2,323,728,130	2,323,728,130

NOTE 20-TREASURY GRANT FOR BOND INTEREST

Opening Balance	2,158,542,462	1,834,729,794
Add : Received during the year	323,812,668	323,812,668
Closing Balance	2,482,355,130	2,158,542,462

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
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(All figures are in Sri Lankan Rupees)

NOTE 21- BOND LIABILITY

Present Value Of The Bond	2,924,204,708	2,695,119,564
Bond Discounted Value @ 8.5% Per Annum	1,472,795,292	1,701,880,436
Bond Value at the maturity	<u>4,397,000,000</u>	<u>4,397,000,000</u>
Bond Interest	1,942,876,008	2,266,688,676
Less : During The year Treasury Grant	323,812,668	323,812,668
	<u>1,619,063,340</u>	<u>1,942,876,008</u>
Bond Interest In Suspense	6,016,063,340	6,339,876,008
Less : Bond Interest for the year	1,942,876,008	2,266,688,676
	323,812,668	323,812,668
	<u>1,619,063,340</u>	<u>1,942,876,008</u>
Total Bond Liability	<u>4,397,000,000</u>	<u>4,397,000,000</u>
<u>The liability to Treasury of Rs. 200 Mn. has been arrived as follows</u>		
Sales Proceeds from SRL	680,000,000	680,000,000
Less:		
Amount Paid to Creditors of SRL	555,000,000	555,000,000
Amount Paid to HSBC, Commercial Bank	200,000,000	200,000,000
Amount Paid to HNB	25,000,000	25,000,000
Amount Paid to Creditors	100,000,000	100,000,000
	<u>880,000,000</u>	<u>880,000,000</u>
Amount Payable to Govt. of Sri Lanka	(200,000,000)	(200,000,000)
Total	<u>4,597,000,000</u>	<u>4,597,000,000</u>

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Fixed interest payable on Rs. 4,397 mn. bonds (half yearly) amounts to Rs.4,209 mn (50% guaranteed by Treasury) and the present value of bonds discounted at 8.5% is accounted for as long term liabilities. Though 50% of interest was originally guaranteed by Treasury in 2008, the Treasury in keeping with Cabinet Decision has undertaken to pay in full interest with effect from 14th May 2004. Hence all payments made by Treasury have been transferred to restructuring reserve account.

Restructuring of CWE loan and OD amount year 2003

Description	Bank of Ceylon	HSBC	Peoples Bank	Commercial bank	HNB	Seylan Bank	Total
Loan Amount	1,852	877	932	778	507	265	5,211
Interest	-	12	-	-	43	-	55
OD Amount	-	75	52	-	100	-	227
Total Liability	1,852	964	984	778	650	265	5,493
Agreed Settlement	1,800	833	725	700	589	250	4,897
Settel By The Cash	100	100	100	100	100	-	500
Restructuring loan	1,700	733	625	600	489	250	4,397
Profit from The Transaction	52	131	259	78	61	15	596

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For the year ended 31st December
(All figures are in Sri Lankan Rupees)

In the year 2003 government of Sri Lanka has issued Bond to the value of Rs.4,397 Million to the respective banks by way of settlement of loan amounting Rs.5,211 Million. Total interest payable amount Rs 4,209,564,684 and present value of the bond Rs.1,522,544,059 and Face value of bond Rs.4,397,000,000 has been charged to PL. According to the SLAS 01 presentation of financial statement entity shall recognize all items in of income and expenses in a period in profit & Loss unless standard recognize or permits otherwise and conceptual frame work of Sri Lanka. Accounting standards "actual amounting depicts the effect of transaction and other events and circumstances and reporting entity's economic resources and claims in the periods in which those effect occurs even if the resulting cash receipts and payment occurs in a different period. This is important because information about a reporting entity's economic recourses and claims and cheques in its economic recourses and claims during a period provides a better basis for assessing the entities past and future performance than information solves about cash receipts and payments during the period" and therefore this bond capital value and interest payable amount reverse in 2011 and reclassified under the provision of LKAS 32 (financial instrument recognition and measurement) (Annexure 01)

According to LKAS 32, (Financial instrument Presentation) this bond should be classified as a financial liability in the balance sheet amounting Rs.4,397 Mn. This has a contractual obligation to deliver cash or another financial asset to another entity. This bond initially recognized at fair value and total interest value has been amortized to Profit & Loss Account in equal amount over the period(13 Year) of bond and that will be redeemed in 2016 and present value in future cash flows shown in the balance sheet separately.50% of the interest agreed to pay by treasury in 2004 on behalf of the entity and the subsequently agreed to settel 100% of the interest.Total interest paid by the treasury from 2003 to 2011 classified as a long term liability until 2016 and This balance only recognize as Income, reserve or liability in year 2016 as per the instruction given by the General Treasury of Sri Lanka.

(Annexure 01)

LONG TERM LIABILITY	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Capital														
Present Value of Bond	1,522,544,060	1,651,960,305	1,792,376,931	1,944,728,970	2,110,030,932	2,289,383,562	2,483,981,164	2,695,119,563	2,924,204,726	3,172,762,128	3,442,446,909	3,735,054,896	4,052,534,562	4,397,000,000
Add : - Difference of Bond														
Discount Value @ 8.5%	2,874,455,940	2,745,039,695	2,604,623,069	2,452,271,030	2,286,969,068	2,107,616,438	1,913,018,836	1,701,880,437	1,472,795,274	1,224,237,872	954,553,091	661,945,104	344,465,438	
Bond value as at the maturity date	4,397,000,000	4,397,000,000	4,397,000,000	4,397,000,000	4,397,000,000	4,397,000,000	4,397,000,000	4,397,000,000	4,397,000,000	4,397,000,000	4,397,000,000	4,397,000,000	4,397,000,000	4,397,000,000
Interest														
Bond Interest	4,209,564,684	4,209,564,684	3,885,752,016	3,561,939,348	3,238,126,680	2,914,314,012	2,590,501,344	2,266,688,676	1,942,876,008	1,619,063,340	1,295,250,672	971,438,004	647,625,336	323,812,668
Less : During the year Treasury Grant (Note 01)														
Closing Balance	4,209,564,684	3,885,752,016	3,561,939,348	3,238,126,680	2,914,314,012	2,590,501,344	2,266,688,676	1,942,876,008	1,619,063,340	1,295,250,672	971,438,004	647,625,336	323,812,668	323,812,668
Treasury Grant														
Opening Balance			215,666,454	539,479,122	863,291,790	1,187,104,458	1,510,917,126	1,834,729,794	2,158,542,462	2,482,355,130	2,806,167,798	3,129,980,466	3,453,793,134	3,777,605,802
Add: Grant Received from Treasury (Note 01)														
Less: Interest paid amount by C.W.E														
Closing Balance		108,146,214	539,479,122	863,291,790	1,187,104,458	1,510,917,126	1,834,729,794	2,158,542,462	2,482,355,130	2,806,167,798	3,129,980,466	3,453,793,134	3,777,605,802	4,101,418,470
Treasury Bond														
Interest														
Expense														
Interest in suspense	4,209,564,684	4,209,564,684	3,885,752,016	3,561,939,348	3,238,126,680	2,914,314,012	2,590,501,344	2,266,688,676	1,942,876,008	1,619,063,340	1,295,250,672	971,438,004	647,625,336	323,812,668
Less: Amortization Cost														
losing Balance	4,209,564,684	3,885,752,016	3,561,939,348	3,238,126,680	2,914,314,012	2,590,501,344	2,266,688,676	1,942,876,008	1,619,063,340	1,295,250,672	971,438,004	647,625,336	323,812,668	0

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

NOTE 2: RETIREMENT BENEFIT OBLIGATIONS

Opening Balance	26,193,505	22,314,962
Amount Paid during the Year	518,470	902,870
Amount Charged for the Year	4,437,033	4,781,413
End of the Year Balance	<u>30,112,068</u>	<u>26,193,505</u>

NOTE 23 - LEASE CREDITORS LONG TERM

Due After Next Year

Lease Creditor-Peoples Leasing	12,503,601	-
Lease Creditor-SMB Leasing	13,305,223	-
	25,808,824	
Less : Interest In Suspenses	7,995,294	-
Total	<u>17,813,530</u>	<u>-</u>

NOTE 23 - LEASE CREDITOR SHORT TERM

Due With In The Next Year

Lease Creditor-Peoples Leasing	-	-
Lease Creditor-SMB Leasing	-	-
Less : Interest In Suspenses	-	-
Total	<u>-</u>	<u>-</u>

NOTE 24: CREDITORS & ACCRUALS

CWE

Treasury - Advance Paddy (Sub Note No 24.1)	254,149,693	254,149,693
Accrued Expences (Sub Note No 24.2)	9,532,401	-
Court Settlements (Sub Note No 24.3)	2,392,154	-
D/RE - Tender De. Services (Sub Note No. 24.4)	15,213,467	-
Tax payables (Sub Note No 24.5)	42,931,116	-
Loan Peoples Bank - Import (Sub Note No 24.6)	242,791,461	221,791,461
Other Creditors (Sub Note No 24.7)	391,745,380	249,245,736
Salary & Dues to Employees (Sub Note No 24.8)	3,625,255	3,795,500
Trade Creditors (Sub Note No 24.9)	224,307,249	97,152,128
Building Maintenance	89,300	-
Rate & Taxes	1,214,570	-
Audit Fees Payables	1,163,323	-
Provision for Staff Leave Pay	4,593,903	-
Stam Duty payable	20,625	-
Staff Security Deposit & Interest	2,908,539	2,908,539
TR Loans People's Bank (Guranteed by Treasury)	-	207,050,943
Total	<u>1,196,678,438</u>	<u>1,036,094,000</u>

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

SUB NOTE NO 24.1-TREASURY ADVANCE

Ampara- 2003	1,921,731	-
Ampara District	10,000,000	-
Anuradhapura -2003	7,987,611	-
Girandurukotte Mahaweli	10,000,000	-
Kandy District - 2003	10,000,000	-
Mannar -2003	995,037	-
Matale District	10,000,000	-
Monaragala -2003	1,681,312	-
Polonnaruwa	181,900,000	-
Polonnaruwa - 2003	10,011,086	-
Trincomalee - 2003	1,652,916	-
Trincomalee Gomarnkadwela & Kantale	8,000,000	-
Total	254,149,693	-

SUB NOTE 24.2- ACCRUELS & OTHER PAYABLES

Accrued Telephone Expenses	77,637	-
Accrued Telephone Allowances	2,176	-
Accrued Advertising Expenses	430,047	-
Accrued Casual Wages	1,071,666	-
Accrued Cleaning Charges	94,000	-
Accrued Electricity Expenses	2,567,174	-
Accrued Entertainment Allowance	30,000	-
Accrued Expences - Other	-	-
Accrued Expences -Fuel	7,500	-
Accrued Fumigation Expenses	36,961	-
Accrued Legal Expenses	12,000	-
Accrued Overtime Payment	460,469	-
Accrued Printing and Stationaries	4,100	-
Accrued Repair and Maintanance Cost	64,695	-
Accrued Security Charges	185,475	-
Accrued Subsistance Payments	78,152	-
Accrued Transport Expenses	63,775	-
Accrued Travelling Expenses	1,364	-
Accrued Allowence	180,000	-
Accrued Labouer Charges	9,450	-
Accrued Bonus	214,000	-
Accrued Rent Expenses	-	-
Accrued Treatment Allowance	-	-
Accrued Water Bill	653,555	-
Salary Control - Casual	680,781	-
Salary Control - Staff	2,607,423	-
Total	9,532,401	-

SUB NOTE 24.3- COURT SETTLEMENT -INSTALLMENT PAYMENTS

Case 45223 / MR	821,841	-
CASE 3603/2011/07/04	544,259	-
CASE 85384/2011/07	333,144	-
CASE 86754 MR	692,910	-
Total	2,392,154	-

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

SUB NOTE 24.4 - D/RE- TENDER DE, SERVICES

Anada Nanayakkara	150,000	-
Deposit Re/ Others	14,841,377	-
Mcran Intenational Trading Co	195,840	-
Noon Industrial Works	26,250	-
Total	15,213,467	-

SUB NOTE 24.5 - TAX PAYABLES

NBT	5,141,602	-
VAT - Control A/C	25,591,804	-
N.B.T Arreas 2010/2011	1,548,904	-
V.A.T Arreas 2010/2011	10,715,130	-
With Holding Tax	(66,324)	-
Total	42,931,116	-

SUB NOTE 24.6 - IMPORT PURCHASES & CHARGES

People's Bank & Bank of Ceylon	178,863,854	178,863,854
People's Bank - 2009	21,927,607	21,927,607
People's Bank - 2010	42,000,000	21,000,000
Total	242,791,461	221,791,461

SUB NOTE 24.7 - OTHER CREDITORS

Lease Bank Of ceylon	6,834,021	-
Re Structering	66,363,460	-
Calculation Error	1,050,493	-
Consoalidated Fund	375,000	-
Execss Collection	208,797	-
Expenditure - 1460402	941,821	-
Fines	30	-
Gift Voucher Issue	1,000	-
Others	920	-
Remittance Control	795,329	-
Revenue	102,878,173	-
Sundry Creditors - Salaries	307,094	-
Surcharges	36,952	-
Suspense	3,368,598	-
TR Loans People's Bank	207,050,943	-
Transport Facility	45,496	-
Unidetted Opeing Balance	1,050,493	-
V.R.S. 1460307	436,761	-
Total	391,745,380	-

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

SUB NOTE NO 24.8 -SALARY & DUES TO EMPLOYEMENT

Capital Reach Credit Limited	1,479,337	-
Ceylinco Consumer Electronic Ltd	10,944	-
Charuka Enterprise	4,696	-
CWE - Recreation Club	2,160	-
CWE General Employee Union	2,160	-
Death Aid - CWE	(5,700)	-
EPF Payable	1,136,024	-
ETF Payable	(35,693)	-
Global Finance & Investment	162,340	-
Jathika Sewaka Sangamaya	150	-
National Housing Development Authority	(99,448)	-
Sathosa Swadeena Sewaka Sangamaya	1,230	-
Singer Sri Lanka	(4,204)	-
Sri Lanka Insurance Corporation	220	-
Sri Lanka Nidahas Sewaka Sangamaya	13,100	-
The CWE Emp: Thrift & Credit & B/S - Sal	957,939	-
Total	3,625,255	-

SUB NOTE NO 24.9 -TRADE CREDITORS

Air Forest (Pvt) Ltd	749,775	-
Ceylinco Insurance Plc	(111,125)	-
Ceylon Weighning Machines Ltd	103,917	-
Craft construction	(486,275)	-
Design Point (Pvt) Ltd	3,818,332	-
Distinction Construction - General Credit	(2,360,809)	-
Friends Construction	(5,936,256)	-
Global Trading Lanka (Pvt) Ltd	45,500	-
Infocus	25	-
John Keells Office Automation (Pvt) Ltd	53,359	-
K.S. Construction	17,351,802	-
Ministry of Defence & Urban Development	8,493	-
Orieant Polysacks Co. (Pvt) Ltd	25	-
R.S. Importers (Pvt) Ltd	17,500	-
Ranathisara Construction	235,847	-
Ranathunga Construction	(435,237)	-
Ref Lihiniya	25	-
Refundable Tender Deposit - Liability	1,104,223	-
Shakisha Truck Lorry Body Builders	5,000	-
Star Computers System (Pvt) Ltd	(128,858)	-
Sundry Creditor - Accessories and Tools	(28,700)	-
Sundry Creditor - Computer H/W & S/W	(100,950)	-
Sundry Creditor - Equipment	(597,965)	-
Golden Key Consumer Durable Limited	(14,410)	-
Janashakthi Insurance	(17,020)	-
Kumara Enterprise	48,603	-

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**NOTES TO THE FINANCIAL STATEMENT****For the year ended 31st December****(All figures are in Sri Lankan Rupees)**

Mineral Spring Servo Distributors (Pvt) Ltd	(614,643)	-
Sri Lanka Telecom Plc	14,158	-
STC General Trading Co. Ltd	134,651	-
Union Assurance Plc	34,422	-
Anupama Saloon	(16,359)	-
Archie Foods Products	(10,500)	-
Building Metirials Co-operation	3,198,784	-
Chilaw Plantation	600,000	-
Delta Imports (Pvt) Ltd	-	-
Elite Radian and Engeneering Co. Ltd	(7,160)	-
Expolanka Commodities Ltd	(109,585)	-
Food Commissioner Department	5,739,567	-
Food Purchasing and Inspection Unit	(283,191)	-
Foreign Employment Bearue	(23,046)	-
G.S. Dry Fish	128,805	-
Gayana Stores	35,568	-
Greenway Transport (Pvt) Ltd	79,091	-
Hajji Habib Company Ceylon Ltd	225,025	-
ishana Spice Exporters	(874,005)	-
J.K. Markatin (Pvt) Ltd	(206,500)	-
Jayas Trading Concern	-	-
M. Michal	55,350	-
Makandura FG Store	2,306,510	-
Maxies	2,086,229	-
Ministry of Co-operative and Inernal Trade	(9,976,715)	-
Ministry of Muslim Religious Affairs	18,636	-
N.B. Foods (Pvt) Ltd	24,670	-
Narahenpita Economic Centre - Vegimart	(150,003)	-
National Insurance Trust Fund	836,112	-
New Benson Trading	(4,312)	-
Nihal Sugar (Pvt) Ltd	-	-
Nihor Enterprises	265,005	-
Nippon Plastic	2,238,575	-
Noorani Estates Limited	406,477	-
Paddy Marketing Board	95,831,317	-
Palliyagoda Trading Co.	-	-
Phoenix Industries Ltd	86,504,771	-
Pulses Splitting & Processing Industry	(2,828,782)	-
Ranjitha Traders	17,755	-
Relic International	2,250	-
Ruwani Farm Shop	(392,296)	-
S.E.S. Food Products (Pvt) Ltd	2,818,374	-
Sewanagala Super Industry Ltd	1,265,000	-
Sharon International Trading Co.	(169,624)	-
Shiran Entraprises	(725,000)	-

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

Softlogic Finance Plc	(1,271,474)	-
Special Eye Solutions	(2,103,567)	-
Sri Lanka Consumer Coopfed Societies	(121,372)	-
Sri Lanka Cooperative Marketing Federation	694,555	-
Star Trading Company (Pvt) Ltd	564,892	-
State Trading (Co-op Wholesale) Co Ltd	(6,329,748)	-
Switz Lanka (Pvt) Ltd	527,752	-
T.G.C. Traders	17,226	-
W.A.N. Nuwan Kumara	132,025	-
W.D.R. Samarakoon and Sons	995	-
Wilson Trading	2,854,276	-
Woodland Company	(1,086,298)	-
Xx	-	-
Yatiana Stores	(1,091,891)	-
CWE-CO-OP Operation Creditor	28,951,050	-
Payabels for Polysack Bags	768,626	-
Total	224,307,249	-

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

NOTE 25 -LOAN PAYABLE TO CO-OPERATIVE COMMISSIONER

Co-operative Operation Fund

Opening Balance	50,000,000	-
Fund Received During The year	242,500,000	50,000,000
	<u>292,500,000</u>	<u>50,000,000</u>
Loss from The Operation	72,421,133	-
	<u>72,421,133</u>	<u>-</u>
Balance to be Paid	<u>220,078,867</u>	<u>50,000,000</u>

This balance was generated after the adjusting net loss of amounting Rs:72,421,133 In year 2011 as mentioned in the below.

Sales	1,148,722,858.36	
Closing stock	<u>29,799,522.34</u>	1,178,522,380.70
<u>Deductions</u>		
Opening stock	74,699,622.15	
Direct cost	573,339.74	
Purchasing Expenses	1,139,920,614.81	
Operating Expenses	<u>35,749,937.00</u>	<u>1,250,943,513.70</u>
Payable amount to the Co-op Commissioner		<u><u>(72,421,133.00)</u></u>

NOTE 26 : BANK LOANS AFTER RESTRUCTURE

Bank of Ceylon Balance	98,100,000	100,000,000
Peoples Bank	56,031,255	66,231,254
Hatton National Bank	<u>29,000,000</u>	<u>43,000,000</u>
Total	<u>183,131,255</u>	<u>209,231,254</u>

NOTE 27 : BANK OVERDRAFT

Sampath Bank	1,243,775	1,243,775
Commercial Bank - 706	1,730,281	-
Commercial Bank - 701	31,193,965	-
Depot Bank	<u>242,144</u>	<u>242,144</u>
Total	<u>34,410,165</u>	<u>1,485,919</u>

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
For the year ended 31st December
(All figures are in Sri Lankan Rupees)

NOTE 28 : COMMITMENT

There were no any material commitment has been identified as at the balance sheet date

NOTE 28 : REASONS FOR NOT CONSOLIDATING SUBSIDIARIES :

SATHOSA RETAIL LTD.

Since with 40% disposal of shares along with 100% management control.

NOTE 29 : CONTINGENT LIABILITIES :

Department of Inland

as follows :

	Tax (Rs.)	
1992/1993	65,249,578	82,624,789

01. Board of review has affirmed the Commissioner's assessment for the Y/A92/93 and the CWE has appealed against this and the case is pending in the court of Appeal. Department of Inland Revenue in starting their case has stated only a claim for Deemed Dividend Tax and not on penalty.

2. Employees retired at the age of 55 years have filed action in Courts seeking compensation up to the age of 60 years. Total compensation is estimated at Rs.3 Mn.

3. Contingent liabilities on account of pending Arbitration Cases stand at Rs.58 Mn.

NOTE 30 : TAXATION

INCOME TAX :

Taxation has been computed in accordance with the Inland Revenue Act No. 38 of 2000. There is no tax liability as there is a carried forward tax loss.

DEFERRED TAXATION :

No provision is required for deferred taxation on the excess of net book value of the assets of which depreciation allowance has been claimed over its tax written down value on the timing differences of assets on the basis that these timing differences are not likely to reverse in the foreseeable future.

NOTE 31 : SATHOSA RETAIL LIMITED :

Sathosa Retail Limited which was a subsidiary of CWE is presently under liquidation.

NOTE 32 : DIRECTORS INTEREST IN SHARES :

Directors do not hold any shares in CWE or its subsidiaries.

NOTE 33 : DIRECTORS INTEREST IN CONTRACTS :

Directors have no interest in contracts with CWE.

NOTE 34 : RELATED PARTY TRANSACTIONS :

No related party transactions taken place during the year.

NOTE 35 : EVENTS AFTER BALANCE SHEET DATE :

No significant events which affect the Balance Sheet have taken place after the Balance Sheet date.

NOTE 36 : CASH AND CASH EQUIVALENT :

comprises cash in hand,

NOTE 37 : LONG TERM LIABILITIES :

In December, 2003 Government of Sri Lanka issued Bonds to the value of Rs.4,397 Million to the representative banks by way of settlement of loans. CWE was requested

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENT
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in turn to hand over assets to the value of Rs.1.8 Billion in 2004 to PERC for sale and remit to the Treasury, being present value of Rs.4,397 Million.

NOTE 38 : RENT DUE AND FIXED ASSETS TRANSFERRED TO LANKA SATHOSA :

CWE has accounted for rent due from Lanka Sathosa has not made any payment for same. The total rent outstanding as at 31.12.2009 stand at Rs.22,812,753/-

CWE has transferred Fixed assets valued at Rs.26,747,505/- to Lanka sathosa as at 31.12.2009, but no adjustments made in accounts due to the absence of information prior to the finalization of accounts. However, there is an undertaking that Lanka Sathosa will issue shares to CWE in settlement of the abovedues in due course.



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கணக்காய்வாளர் தலைமை அறிப்பி திணைக்களம்

AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No. }

TC/D/CWE/1/11/FA03

ඔබේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date }

17 July 2015

The Chairman

Co-operative Wholesale Establishment

Report of the Auditor General on the Financial Statements of the Co-operative Wholesale Establishment for the year ended 31 December 2011 in terms of Section 14 (2)(c) of the Finance Act, No. 38 of 1971.

The audit of financial statements of the Co-operative Wholesale Establishment for the year ended 31 December 2011 comprising the balance sheet as at 31 December 2011 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Co-operative Wholesale Establishment Act, No. 47 of 1949 amended by the Co-operative Wholesale Establishment(Amended) Act, No. 12 of 1969. My comments and observations which I consider should be published with the Annual Report of the Establishment in terms of Section 14 (2)(c) of the Finance Act, appear in this report. A detailed report in terms of 13(7)(a) of the Finance Act was issued to the Chairman of the Establishment on 25 October 2013.

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.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Establishment's preparation and fair presentation of the financial statements 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 Establishment's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 **Basis for Adverse Audit Opinion**

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. **Financial Statements**

2.1 **Adverse Opinion**

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Co-operative Wholesale Establishment as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 **Comments on Financial Statements**

2.2.1 **Going Concern of the Establishment**

In view of the diminution of the net assets to a negative value of Rs. 6,515,718,604 by 31 December 2011 as the Establishment had incurred losses continuously from the year 2000 to the year under review and the

existence of a long term bond liability totalling Rs. 4,597,000,000 and continuously increasing current liabilities of Rs. 1,634,298,725, it is indicated that an uncertainty appears in the going concern of the Establishment without other financial assistance of the Treasury or the Government.

2.2.2 Sri Lanka Accounting Standards

Instances of non-compliance with the Sri Lanka Accounting Standards are given below.

(a) Sri Lanka
Accounting
Standard 09

The cash flow statement had not been prepared in compliance with the Standard so as to reflect the movement of cash into and out in the year under review and the following weaknesses were observed in the cash flow statement prepared.

(i) Even though the cash balance of the Revolving Fund had been included in the cash flow statement as cash and cash equivalents in obtaining the closing balance, the movement of cash into and out of the Revolving Fund amounting to Rs. 1,257,955,959 and Rs. 1,266,528,568 respectively had not been adjusted in the cash flow statement.

(ii) Even though the transactions relating to distribution of plastic baskets had been taken in the preparation of the financial statements, payments and receipts of cash relating to purchases and sales relating thereto had not been adjusted in the cash flow statement.



- (b) Sri Lanka Accounting Standard 18 Action had not been taken to revalue and account for the Properties, Plant and Equipment costing Rs. 245,802,705 depreciated fully but could be used further.
- (c) Sri Lanka Accounting Standard 26 Even though the Co-operative Wholesale Establishment owns hundred per cent of the shares of the CWE Economic Centre Service (Pvt) Ltd., the consolidated financial statements had not been prepared by consolidating the financial statement of that Company.
- (d) Sri Lanka Accounting Standard 40 The value of buildings in respect of earning income had not been shown separately in the balance sheet under investment properties.

2.2.3 Accounting Policies

Even though it is indicated in the financial statements that depreciation is computed on the basis of the useful lifespan of property, plant and equipment, the Establishment had followed the policy of non-depreciation in the year of purchased and disposal of assets. As such, depreciation on assets purchased at Rs.41,917,270 and assets disposed of at Rs. 18,930,309 in the year under review had not been computed.

2.2.4 Accounting Deficiencies

The following observations are made.

- (a) The accuracy of the data and information included in the financial statements presented to audit could not be confirmed due to following reasons.
- (i) It could not be confirmed whether all payments had been included in the cash book due to failure in entering all payment vouchers in a systematic manner in the cash book.
 - (ii) It could not be confirmed whether all receipts had been included in the cash book due to failure in entering receipts in a systematic manner in the cash book.
 - (iii) Advance payments and other balances receivable not indicated as balances at the end of the preceding year, amounting to Rs. 8,867,265 and Rs. 18,145,017 respectively had been shown as the opening balances of the year under review.
 - (iv) A total difference of Rs. 92 million including a difference of Rs. 28 million between the sales and closing stock of the Revolving Fund in the financial statement in the year 2011 presented to audit previously and in the amended financial statement presented subsequently, and a difference of Rs. 64 million between the purchases and opening stock of the Revolving Fund had been observed, thus indicating a difference of Rs. 36 million in the profit as well. The journal entries / adjustments relating to this difference had not been presented to audit. As such, the accuracy of the details of the result of the Revolving Fund and the income and expenditure could not be confirmed.



- (b) Action had not been taken to repay the loan amounting to Rs. 275 million granted by the General Treasury in the year 2006 for purchasing trade goods and it had been included in the restructuring reserve instead of being shown as the loan payable.
- (c) A sum of Rs. 71,561,640 receivable from Lanka Sathosa as annual lease rental and foreign liquor licence fees had been omitted from the financial statements.
- (d) Unusual credit balances of Rs. 279,102,257 in trade and other debtors balances and unusual debit balances of Rs. 38,825,045 had been included in the creditors balances. The correct position had not been reflected by the financial statement due to indicating the net amount of Rs. 240,277,212 receivable by setting off with each other instead of identifying these unusual balances and settling them.
- (e) Provisions of Rs. 1,068,232 had not been made for depreciation relating to the year under review for the assets costing Rs. 80,282,250. According to the audit test check, provisions had not been made for vehicles purchased at the cost of Rs. 16,911,000 in the preceding years as well.
- (f) Even though the Establishment had sold 21 motor vehicles of purchased prices amounting to Rs. 12,082,000 during the year, the loss on sales had not been computed accurately due to adjustment of only the accumulated depreciation relating to two motor vehicles in computing profit on sales of vehicles.
- (g) Even though it had not been disclosed by the accounts that balances of Rs.346,110,167 that existed as debtors in the preceding year was further indicated as debtors by the end of the year under review, a sum of Rs.200,823,844 had been made as bad debt provisions for those debtors in the year under review. As such the net debtors balance as at the end of the year under review had been understated by that amount.
- (h) Even though stocks amounting to Rs.2,360,907 belonging to the Transport Division and existing from the beginning of the year under review had been removed from the stocks as they were not physically available, the loss had not been written off from the Income Account. Further, action in respect of this shortage in stocks had not been taken up to date by the management.



- (i) Provisions had not been made for audit fees of Rs.9,619,007 payable as at 31 December 2011.
- (j) The transactions of the Co-operative Revolving Fund had been shown in the financial statements of the Establishment and the interest amounting to Rs.3,130,908 received in the year under review from its savings account had been shown in the Income Statement as other income earned by the Establishment.
- (k) As the following unusual positions were observed in rent debtors shown in the financial statements, it could not be satisfied in audit in respect of rent debtors balance.
- (i) Rent debtors as at 31 December 2011 amounted to Rs. 47,680,654 and the provisions for doubtful debts had been Rs. 68,539,508 , representing an unusual percentage of 144 per cent. As such, provisions exceeding the debtors balance by a sum of Rs.20,858,854 had been made for doubtful debts.
- (ii) Even though the balance for rent debtors in the preceding year had decreased by Rs. 76,871,289, journal entries or other evidence to confirm whether this had occurred due to recovery of loans, writing off bad debts or for another reason had not been presented to audit.
- (iii) As the income on rent includes electricity bills, water bills and transactions on other purchases, it was not possible to be satisfied about the accuracy of the rent debtors.
- (l) Even though the transport expenses amounting to Rs. 7,785,329 incurred by the Establishment for the Project of Paddy Hulling, charges for hulling of paddy amounting to Rs. 15,117,351 and expenses of purchase of polysac bags amounting to Rs. 2,491,305 had been an income receivable to the Establishment, the financial statements had been distorted as it had been brought to account deviating from the Double Entry Principle as a direct cost in the sales cost.



2.2.5 Unexplained Differences

The Following observations are made.

- (a) Even though the values shown in the financial statement of the year 2011 presented in April 2013 and the values of the financial statements presented subsequently had changed, the reasons for that had not been submitted and differences totalling Rs.15,903,461,552 were observed in 24 items of account. In addition to this, a difference of Rs. 35,919,947 in the loss of the Co-operative Revolving Fund was observed. As such, audit could not rely on the adjustments made in the financial statements.
- (b) Assets costing Rs. 250,266 shown in the detailed schedules as additions in the year under review had been shown under accumulated depreciation as at the date of commencement of the year under review and as at 31 December 2011 and these purchases had been shown as the cash out flow in the cash flow statement as well. The additions amounting to Rs. 250,266 referred to above had been shown as Rs. 204,766 in the financial statements after the set off of disposals amounting to Rs. 45,500 in the year.
- (c) Even though, an amount of Rs. 207,050,943 had been shown as TR credit under the Commercial Bank under the other creditors, according to the Letter of Confirmation of bank balances that credit balance amounted to Rs. 207,097,942 and as such, a difference of Rs. 46,999 was observed. Even though that letter referred to a fee of Rs. 21,197,751 payable as at 31 December 2011, that financial expense had not been adjusted in the accounts for the year under review.
- (d) A sum of Rs. 242.5 million had been received from the Commissioner of Co-operative Development in the year 2011. As that money had been utilized for the purposes of the Co-operative Wholesale Establishment such as for making purchases without a plan, incurring a working cost of

Rs. 35.7 million which cannot be borne by the Revolving Fund as well as the transfer of a sum of Rs. 104.2 million from the bank account of the Fund to the Savings Account of the Establishment had been the reasons for incurring a loss of Rs. 72.4 million by the Co-operative Revolving Fund could not be ruled out in audit

- (e) A difference of Rs. 6,842,728 was observed in the debit column of the bank account at the audit examination of notes relating to the bank account in the ledger relating to the balance of Rs. 1,730,281 shown as cash and cash equivalents in the cash flow statement.

2.2.6 Lack of Evidence for Audit

 The following observations are made.

- (a) The balances of 12 assets accounts totaling Rs.2,342,123,613, the balances of 08 liabilities accounts totaling Rs.1,601,578,520, the balance of 02 income accounts amounting to Rs.139,690,713 and a balance of 01 equity account amounting to Rs.542,164,547, all totaling Rs.4,625,557,393, shown in the accounts could not be satisfactorily vouched / verified or accepted due to the unavailability of evidence.
- (b) The management had failed to specifically identify the balances of 09 accounts totalling Rs. 110,975,798 shown as payables under current liabilities.



2.2.7 Accounts Receivable and Payable

The following observations are made.

- (a) No recoveries whatsoever had been received up to October 2014 in respect of the assets valued at Rs.126,156,746 handed over to the Lak Sathosa established at the Welisara Stores Complex. However, the establishment had failed to disclose in the accounts that such amount is included in the fixed assets or to establish the manner of accounting.
- (b) The arrears of lease rent older than 04 years due as at 31 December 2011 from 145 institutions and individuals amounted to Rs.87,560,470. An adequate course of action had not been taken to recover the money even by October 2014. The Establishment had failed to recover the lease rent income amounting to Rs. 47.6 million recoverable from the year 2009.
- (c) Bid Security Loans amounting to Rs. 207,050,943 had been granted to the Establishment by a State Bank on Treasury Securities for import of rice and wheat flour in the years 2004 and 2005 and it had been remained outstanding even by 31 December 2014.
- (d) Even though it had been stated in the financial statements of the Paddy Marketing Board for the year 2011 that a balance of Rs. 341,388,591 payable by the Sathosa to the Paddy Marketing Board existed, it had been shown as Rs. 95,931,317 in the financial statements of the Sathosa. The Establishment had failed to settle this liability up to date and action had not been taken to settle this difference as well.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions.

Non-compliance

(a) Section 13 (6) of the Finance Act, No. 38 of 1971

A report on accounts had not been presented to the Auditor General along with the financial statements.

(b) Sections 2 and 8 of the Public Contract Agreement Act, No. 3 of 1987

Even though every public contract exceeding Rs. 5 million should be registered at the Department of Registrar of Companies in terms of these Sections, action had not been taken in respect of 05 contracts totaling Rs. 40,146,175 awarded by the Establishment.

(c) Section 2.2(a) of the Co-operative Wholesale Establishment (amendment) Act, No.31 of 1991

Even though the Establishment can only invest in the existing public companies, contrary to it, a private company named Sathosa Economic Centre Services (Pvt) Ltd., had been established and employed officers who are paid by the Establishment without the approval of the Cabinet of Ministers or the Department of Public Enterprises of the Treasury



- (d) Section 8.2.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003
- A sum of Rs. 5,124,018 had been granted to a private company established by the Establishment without the concurrence of the Minister of Finance.
- (e) Management Services Circulars No. 30 of 01 June 2009 and No. 39 of 26 May 2009
- Sixty five employees had been recruited, promoted and placed on different salary scales without proper approval and without paying attention to the approved cadre of the Establishment and regulations and terms on public salaries and allowances.

3. Financial Review

3.1 Financial Results

According to the income statements presented, the net loss for the year under review had been Rs.313,605,785 and the loss for the preceding year had been Rs.321,512,555. As such, the net loss for the year under review had decreased by Rs.7,906,770. However, a gross loss of Rs. 26,558,554 had occurred due to non - identification of sales of the Co-operative Revolving Fund and the Establishment specifically and failure to bring to account separately and understating the closing stock of the preceding year as the opening stock of the year under review by Rs. 79,297,166, (Even though the audit had not taken the effects of the observations indicating in respect of operations and financial expenditure into consideration) the minimum net loss should be Rs. 69,090,283, the improvement of 344 per cent shown in the financial statements will be converted into a deterioration of 3104 per cent.

3.2 Analytical Financial Review

	2011	2010
(i) Profitability Ratios		

- Gross Profit percentage	17	1
- Operating Profit percentage	10	13
- Net Profit percentage	3	1
(ii) Ratio of Operating Expenses to Operating Income	41	46
(iii) Liquidity Ratios		

- Current	0.66:01	0.47:01
- Quick Assets	0.58:01	0.39:01
(iv) Stock Turnover Ratio	3.71	2.37
(v) Ratio of Staff Expenses to sales	1:3	1:2
(vi) Ratio of Total Assets to Net Assets	(2.82)	(3.23)
(vii) Capital Gearing Ratio	(1):1.1	(1):1.1
(viii) Reserve Ratio	(47%)	(52%)



The following observations are made.

- (a) Even though an analytical review had been carried out through the above analysis of ratio, due to differences the balances of the accounts in the year under review and the comparative balances of the preceding year, as pointed out in the observations in 2.2.3 and 2.2.5 shown in this report relating to the financial statements presented, many difficulties had arisen in using it effectively in audit.
- (b) The establishment had incurred over-expenditure for the staff as 1/2 and 1/3 of the total sales income by indicating the ratio of staff expenses to sales for the preceding year and the year under review as 1:2 and 1:3 respectively.
- (c) In the comparison of capital gearing ratio of the Establishment for the year under review and the preceding year, it was observed that the capital structure of the Establishment was at greater risk due to high gearing position owing to capital erosion in every year. Further, the deterioration of reserves due to the capital erosion of the Establishment ranged between 47 and 52 per cent.
- (d) Net assets (Equity Capital) had eroded three times each than the value of total assets.

4. Operating Review

4.1 Physical Performance

The following observations are made.

- (a) According to the activities of the year 2011 in the Corporate Plan, the expected duration for rice processing had been 4,608 hours. Nevertheless, the actual duration had been 3,561 hours. Even though the quantity of paddy which should be purchased for 3,561 hours worked had been 4,006,125

kilograms (1500 x 75% x 3561), the actual quantity of paddy purchased had been 3,506,083 kilograms. As such, paddy had been purchased less by 500,042 kilograms. Therefore, the management of rice mills of the Establishment had been at a weak level.

- (b) Even though the standardized quantity to be converted into rice out of the paddy purchased had been 2,349,075 (3,506,083 x 67 %) kilograms, the actual quantity of rice had been 2,230,400 kilograms. As such, it was observed in audit that the production of rice less by 118,675 kilograms had been an unusual deviation.
- (c) Even though the targets of the quantity of paddy purchased for rice processing from the Paddy Marketing Board had not been included in the Corporate Plan or the Action Plan, 5942.104 metric tons had been purchased from the Paddy Marketing Board.

4.2 Management Inefficiencies

The following observations are made.

- (a) Action had not been taken to initiate legal action against the parties responsible for the misplaced electric motors of 12 containers valued at Rs.5,097,455 by determining the custody of assets, the assignment of responsibilities and carrying out a proper investigation in this connection.
- (b) Legal agreements had not been entered into with the parties concerned in renting out 5 buildings owned by the Establishment to run Budget Shops while the rents had not been determined by obtaining assessments from the Government Valuer.
- (c) Twenty nine buildings of sales centers and stores belonging to the Establishment had been rented out to a State company, the Lanka Sathosa Company Limited without obtaining, a valuation of the building rent from the Government Valuer.



(d) Assets valued at Rs.51,718,227 belonging to the Establishment had been transferred to the Lanka Sathosa Company Limited by 03 November 2010, whereas a formal agreement with regard to obtaining cash or shares of the company had not been entered into in this connection.

(e) A sum of Rs.14.9 million from the Co-operative Revolving Fund Account and Rs.30 million received directly from the Commissioner of Co-operative Development had been utilized for the operating activities of the Co-operative Wholesale Establishment. As such, the failure to utilize the funds received from the Revolving Fund for the objectives of the Revolving Fund cannot be ruled out in audit.

4.3 Uneconomic Transactions

 The following observations are made.

- (a) The Establishment had invested a sum of Rs.181,852,400 comprising a sum of Rs.171,928,690 in the Sathosa Retail Limited and a sum of Rs.9,923,710 in the Ingrin Institute of Printing and Graphics Limited in the year 1999. The Sathosa Retail Limited had been inactive since June 2005 due to losses incurred and its dissolution had been directed by a judgment delivered by the District Court, Colombo on 23 October 2006. As such, it was observed that the recovery of investments therein was uncertain. No dividend whatsoever had been received during the period 1999 to 2011 on the investments made in the Ingrin Institute of Printing and Graphics Limited as well. According to the financial statements, a sum of Rs.42 million only had been received by the Establishment on 07 June 2013 in respect of sums totalling Rs.534 million receivable to Sathosa from the Sathosa Retail Limited including the above investment made in the Sathosa Retail Limited by Sathosa.
- (b) Even though a sum of Rs.134,000 only had been allocated for entertainment expenses by the Annual Budget of the Establishment, a sum of Rs.1,494,791 had been spent on entertainment expenses during the year.

4.4 Restructuring Transactions

The following matters were observed.

The restructure of the Establishment had commenced in the year 2003 and the 6 commercial banks to which a sum of Rs.5,493 million was payable as at 01 December 2003, had agreed to revise that loan as Rs.4,397 million. Accordingly, Treasury Bonds to be matured in 13 years had been issued to those commercial banks. It had been agreed to settle those Treasury Bonds in the year 2005 from the proceeds of the sale of assets valued at Rs.1.8 billion out of the fixed assets belonging to the Establishment, by the Public Enterprises Reform Commission. It had also been agreed to pay the half yearly interest on those loans and to meet 50 per cent of such interest by the Treasury and to meet the balance 50 per cent from the rent income received by renting out the properties of the Sathosa to the Sathosa Retail Company Ltd. Nevertheless, no transfer of assets to the Public Enterprises Reform Commission had been made for the settlement of the liabilities in respect of Treasury Bonds under the restructure. Even though a decision had been taken to dissolve and privatize the Establishment in accordance with the decision of the Cabinet of Ministers No. 04/0103/136/007/EPC/710 dated 03 February 2004, it had not been implemented in accordance with the decision of the Cabinet of Ministers No.04/0892/012/001 dated 11 August 2004.

Accordingly, a total of Rs.4,597 million (4,397+200) comprising the net present value of Treasury Bonds amounting to Rs.2,924 million as at 31 December 2011 under the discount factor of 8.5 per cent and a discount value of Rs.1,472 million totalling the maturity value of Rs.4,397 million and a sum of Rs.200 million payable to the Treasury in respect of the payments made by the Treasury to creditors of the Sathosa Retail Company Ltd and three commercial banks out of the above six banks for the settlement of loans, had been shown as bond liabilities in the financial statements.

Bond interest liabilities amounting to Rs.2,482,355,130 payable to the Treasury in this connection had been shown as "Treasury Grants for Bond Interest" under the Non-current Liabilities in the financial statements.

Further, the Management had failed to get confirmation from the Treasury that the balance of Rs.200 million out of the payables amounting to Rs.4,597 million was receivable to the Treasury and a sum of Rs.66,363,460 had been shown as Restructures under Other Creditors. As such, it was evident that the restructuring transaction had not been properly disclosed or adjusted. The restructuring value of Rs.66 million had been shown as Bookkeeping in the Computerized Accounting System.



4.5 Apparent Fraudulent Transactions

In the sale of bakery products during the years 2009 and 2010, a cash fraud totalling Rs.1,321,285 had been revealed. Nevertheless, legal action in this connection had not been taken even by 30 April 2015.

4.6 Contingent Liabilities

Fifty nine court cases had been filed by various parties against the Establishment by the end of the year 2011 while those had not been disclosed in the financial statements.

4.7 Transactions of Contentious Nature

Rice mills had been constructed at a cost of Rs.78,978,504 in two stores at Hingurakgoda belonging to the Department of Food Commissioner obtained on rental basis.

4.8 Idle Assets

The Establishment had imported 140 rice processing machines costing Rs.14,501,998 in September 2006 on the instructions of the then line Ministry. Nevertheless, action had not been taken by the Establishment to use those rice processing machines even by the end of the year 2011 and those machines had remained idle at the Establishment even by November 2014.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

- (a) The financial statements of the Establishment should be presented for audit before 28 February of the ensuing year after the close of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003. Nevertheless, the financial statements for the year 2011 presented to audit on 11 April 2013 had been withdrawn and presented again on 09 June 2014 as revised new financial statements.
- (b) Paying vouchers of both the Co-operative Revolving Fund and the Establishment had been filed together while ledger accounts had not been properly maintained so as to identify the income and expenditure of the Establishment and the Co-operative Revolving Fund separately. As such, it was questionable whether these transactions were entered into in a transparent manner.

5.2 Corporate Plan

Even though a Corporate Plan covering the period 2011-2013 had been prepared with a view to achieving the vision and mission of the Establishment in terms of Section 5 of the Public Enterprises Circular No.PED/12 of 02 June 2003, it had not been timely reviewed.

5.3 Action Plan

Even though an Action Plan for the year 2011 had been presented to audit, it had not been prepared in terms of the Public Budget Circular No.142 of 31 December 2008.



5.4 Budgetary Control

Significant variances ranging from 53 per cent to 97 per cent were observed between the estimated and budgeted amounts, thus indicating that the budget had not been made use of as an effective instrument of management control.

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 Establishment from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Fixed Assets Control
- (c) Stock Control
- (d) Rent Income
- (e) Cadre Management
- (f) Internal Audit

W.P.C. Wickramaratne

Acting Auditor General

Auditor General's Report on Accounts of the CWE for the year ended as 31.12.2011 in terms of section 14(2)(c) of the Finance Act No. 38 of 1971.

This refers the letter bearing No. TC/D/CWVE/1/11/FA/03 dated 17th July, 2015. Our observations stated in respect of the above said report are submitted herewith as follows.

Chairman's Comments

1.2 Responsibility of Management on Financial statements

1.3 Responsibility of Auditing

2. Financial Statements

2.1 Audit opinion

2.2 Commenting on Financial Statements

2.2.1 Sri Lanka Accounting Standards (SLAS)

(a) SLAS 03:- Agree. Measures have been taken to rectify relevant standards within the Accounting Statement of 2012.

(b) SLAS 05:- The accounting policy followed regarding recognition of stocks, entering into accounts and revealing has been indicated under "inventories" of accounting policies in page no. 09.

(c) SLAS 09:- 2.2.2 Responses have been given under No.01 of the audit query 2011 of the amended financial auditing TC/D/CWE/FA/AQ 2011/2014 dated 30.09.2014. Further since this difference does not make an impact on final accounts, does not influence on variation in working capital in cash flow statement.

2.2.3 (c) We agrees with the circumstances you indicated and inform that it does not make an impact on last response of variation in working capital. However, actions have been taken to rectify this status in accounts of 2012.

2.2.3 (e) Response for this has been provided under No.04 of TC/D/CWE/FA/AQ/2011/2014 dated 30.09.2014. Therefore this

condition has not made any influence on calculation of variation in working capital of cash flow statement.

2.2.3 (f) Answered under audit query TC/D/CWE/FA/AQ/211/2014 DATED 30.09.2014. Further, this does not influence on last answer of variation in working capital.

2.2.3 (g) Agree with the circumstances you have provided and CWE does not have document required to rectify this.

However, although calculation of variation in capital is correct as per accounting, I wish to inform you that in case variation in working capital is calculated under the circumstances you have indicated it makes an impact of working capital.

(d) SLAS 18:- (i) I inform that measures are being taken to reevaluate and submit these assets for the Year 2012.

(ii) In the provision of depreciation for assets depreciation is calculated for the year of purchase while depreciation is not accounted for the whole year which is removed. Further, disposed vehicles have been revalued and therein total amount of accumulated depreciation made up to that has been removed. However since depreciation has not been newly calculated for the year 2010, relevant depreciation for 2010 was done in 2011.

Herein I noted to calculate depreciation for the assets values at Rs.41,270,917 you have further indicated for the year 2011 in 2012.

Assets	Percentage	Cost	Depreciated value	Depreciated term
Computers and accessories	33 ¹ / ₃ %	2,104,510/-	701,434/-	1 year
Accessories (Transport Division)	10%	9,300/-	930/-	1 year
Accessories (Packing Division)	10%	778,141/-	77,814/-	1 year
Tools (Building Department)	10%	4,915,960/-	306,474/-	1 year

Office equipment	10%	44,293/-	4,429/-	1 year
Installation of air conditioners	10%	416,000/-	41,600/-	1 year
Installation of air conditioners	10%	641,725/-	64,172/-	1 year
Installation of air conditioners	10%	97,750/-	9,775/-	6 months
Hingurakgoda (Grease Cutter)	10%	13,750/-	1,375/-	6 months
Installation of air conditioners	10%	789,970/-	39,498/-	6 months
Installation of air conditioners	10%	469,975/-	23,498/-	6 months
Installation of air conditioners	10%	246,500/-	12,325/-	6 months
Installation of air conditioners	10%	330,000/-	16,500/-	6 months
Installation of air conditioners	10%	1,287,800/-	64,390/-	6 months
Installation of air conditioners	10%	578,197/-	28,909/-	6 months

Provisions of depreciation have not been made for purchasing furniture and their installations it is expected to make depreciation provisions for that in 2012. Disposed vehicles had been revalued in 2009 they have been removed from depreciation accounts. Further, depreciation for such vehicles was calculated in 2011.

We have schedules related to depreciation of these assets and they could be produced. These disposed assets revalued in 2009 and disposed in 2011. Therein depreciation has not been calculated only for the year 2011. This has been recognized from the detailed schedule of fixed assets for the year 2011 that produced you.

- (f) SLAS 26:- I inform you that I would take measures to produce in the statements of 2012.
- (g) SLAS 40:- I inform you that I would take measures to produce in the statements of 2012.

1.2.2 Accounting Policies

Answers have been provided under No.01 of the audit query 2011 for the revised financial statement auditing TC/D/CWE/FA/2011/2014 DATED 30.09.2014. Further since this difference does not make an impact on final accounts, does not influence for the variation in working capital of cash flow statement.

2.2.3 Accounting deficiencies

- (a) General Treasury has obtained an amount of Rs.275Mn (as reimbursement of loss occurred in purchasing flour) from the loan of Rs.456 Mn CWE obtained from People's Bank to import rice, flour and sugar. It has been indicated under restructured reserves. This was removed from reserves of 2012 and arrangements were made to make adjustments for accumulated profit/ loss account balance.
- (b) (i) The rental for buildings which was paid to Lanka Sathosa was paid to CWE from April 2011'
 - (ii) LakSathosa has been given opportunity to utilize these assets as an affiliated company of CWE and it has been entered into accounts only in 2012.
- (c) This does not make an impact on net outcome of working capital and I noted to rectify it in 2012.
- (d) (i) I noted to rectify it through the accounts of 2012.
 - (ii) and (iv) These vehicles were revalued in 2009 and although the accumulated depreciation made up to that was recovered from accounts in 2010, depreciation was not calculated for that in 2010. Therefore stated to calculate depreciation for that.
 - (iii) I noted to rectify through accounts of 2012.
- (e) Responded for that under No 04 of TC/D/CWE/FA/AQ/211/2014.
- (f) Responded for that under No 05 of TC/D/CWE/FA/AQ/211/2014.
- (g) There is a deficiency in the situation you have submitted and it has been rectified. Further reservation of doubtful debts is for the year 2010.

This has been cited under accounting notes 15.
- (h) Responses have been given for this under TC/D/CWE/FA/AQ/211/2014 notes 12. This has been credited to repairs and maintenance account.

- (i) There is no any document in the Accounts division in this regard and I wish to inform that actions would be taken to rectify errors in consideration of the accounts in past years. Further, I have noted to make adjustments for audit charges in 2011 in the accounts of 2012. Please send us information regarding balances with relevant invoices in order to enter balances in arrears you have mentioned.
- (j) As per the agreement entered with Co-operative Department transactions on its affairs are of CWE values have been given in financial statements of CWE. I have noted to make adjustments of the value of plastic crates in 2012.

1.2.4 Controversial Trisections

- (a) This is the result of a decision made by the than management on state policies in 1998. However that rice processing centre is presently an fixed asset of CWE and its functions are continuously in progress.
- (b) (i) Department of Management services has approved a cadre on the guidance of the Ministry in charge of the subject in consideration of the subject fields proposed to be implemented on the basis of the circumstances prevailed as at 12.1.2012.

(ii) Further, a procedure of recruitments and promotions has been approved and the entire staff has been absorbed to that staff. Scheduled promotions would be given following that.
- (c) Answers have been given for that under No.TC/D/CWE/FA/AQ/211/2014 dated 30.09.214.

1.2.5 Non reconciled Administrative Accounts

- (a) This is only an exposure of financial statements and not a difference in transactions.
- (c) The stock as at 31st December 2011 has been clearly stated in Notes No.11

Trade Stock	<u>41,635,183.00</u>
Stock of Buildings Department	4,143,032.00
Packing Materials	454,513.00
Plastic crates stock	61,830,650.00
Stock of co-operative projects	<u>29,799,522.00</u>
	<u>96,227,717.00</u>
Total stock	<u>137,862,900.00</u>
Stock as per financial statements 2010	110,518,113.00
Trade stock	<u>31,220,951.00</u>
Stock of Cooperative Projects	74,699,622.00
Stock of Buildings Department	4,143,032.00
Stock of packing materials	<u>454,513.00</u>
	<u>79,297,167.00</u>

2.2.6 Unexplained differences

(a)

- (1) Value for purchasing store machinery is Rs.196,350/=. This has been clearly explained in Notes No.09. That value has been clearly cited in our cash flow statement.
- (2) A deficiency in preparing schedules relevant to store equipment and deep freezers have been rectified as Rs.45,500/=. However we have not made adjustments for them and not included to flow statement of the fund.

- (3) A high depreciation of Rs.8,016 has been made for Anuradhapura store that is one of the buildings constructed in crown lands before 2011 and it has been shown as an addition for adjustment. By mistake only the value of Rs.8,016/- has been entered into cash flow statement.
- (b) Answers have been given for that under No.03 of TC/D/CWE/FA/AQ/2011/2014.
- (d) i. Answers have been provided under 03 (a) of TC/D/CWE/FA/AQ/2011/2014 and since the amount of Rs.292.5Mn ; working capital has converted into debtors, creditors, finance and stocks at several times through circulatory flows and has become huge purchasing and selling prices. It has been cited as a payable amount under "Loan payable to co-operative commissioner" under note No.25.
- ii. Answers have been given for that under TC/D/CWE/FA/AQ/2011/2014 03(b)
- iii. Answers have been given for that under TC/D/CWE/FA/AQ/2011/2014 03(c)
- iv. Answers have been given for that under TC/D/CWE/FA/AQ/2011/2014 03(d)
- v. Answers have been given for that under TC/D/CWE/FA/AQ/2011/2014 03 (e)

2.2.7 Payable and receivable accounts

- (a) Agree. Both investment values and debtors' values have been included within debtors of Lanka Sathosa. It has been noted to enter the said investment value and debtors' value separately in the accounts 2015.
- (b) Letters making orders to recover relevant debts have been sent.
- (c)
- (d) Agree
- (e) Balance has been agreed as per the balance payable to Paddy Marketing board by Sathosa by 2015 and documents of Sathosa.
- (f) It has been noted to make adjustments for the accounts in 2012.

2.2.8 No evidence for auditing

(a) Actions are taken to submit as applicable for accounts in 2012.

(b)

2.2.9 Inconsistency to rules and regulations to management decisions

(a)

(b)

(c) Since this company has absolute ownership to CWE, officers of CWE have been appointed to the posts of that company as acting officers. If persons from outside would be appointed for such posts a large amount of salary and allowances will have to be paid and service of relevant officers has been obtained by paying a little amount.

Approval of the Cabinet of Minister was obtained tot companies as per the annual accounts report of 2004 and only a few companies were established. However, business of those companies was not started. Accordingly, CWE has been granted approval to establish companies as per the Companies Act under a policy and it is not illegal to establish these companies. Further it is legal for companies like CWE that utilizing its own capital instead of public assets to invest in a capital company.

Further as per the structural requirement of the companies started in 2002 these companies have been re established. These companies have been established as having absolute ownership to CWE without other share holders under companies Act no.07 Of 2002 under the provisions of establishing an individual company.

(d) Since CWE is a company with absolute ownership this amount has been spent on it. Loans given to relevant company has already been recovered by Sathosa.

3 Financial Review

3.1 Financial outcome

3.2 Analyzed financial statement

(a)

(b)

(c)

(d)

(4) Summary of operations

4.1 Physical Financial Progress

(a) I have noted to correct in future.

(b) I have noted to correct in future.

(c) I have noted to correct in future.

4.2 Inefficiency of Management

(a)

(b)

(c) Buildings and other assets of CWE has been used to commence the functions of Lanka Sathosa. These buildings were leased to Lanka Sathosa that had been established as a state company with the contribution of CWE, later the rental was revised on the basis of market value on rental in relevant areas: (Time spent for obtaining valuation reports by valuation Department and the financial difficulties occurred in paying cost for that has been taken into consideration.)

(d) (e) a committee was appointed by Secretary to the Ministry in order to get the ownership of shares for the amount of Rs. 121,708,710.23 that has been invested by CWE for Lanka Sathosa. We have submitted relevant information and reports in this regard. I wish to inform you that the first set of shares has been issued.

(f) Arrangements have been made to pay relevant EPF in January 2012.

4.3 Non economic affairs

(a) Ingrin Institute of Printing and Graphics Company has not declared any profit during the stated time period. Ingrin institute has informed us it has not been paid money for the shares they have issued (annexure 01) and the corporation

has valued and handed over the building and land of the institute in lieu of that, although we requested it to purchase the shares relevant to the investment.

It has been exposed in this regard under notes 10 of the accounts of 2011.

- (b) The total amount of Rs.1.076, 286 used for daily refreshments of the staff has been herein included.

4.4. Restructuring Transactions

Arrangements have been made to expose a detailed report on this in the accounts of 2012.

4.5. Visible Fraudulent Transactions

Disciplinary actions are in progress even on the basis of the matters exposed in the government audit report stating that Rs. 1,321,285 by the sale of bakery items made in 209 and 2010 and it has been scheduled to take a decision by the investigation officers after the completion of disciplinary investigations. This is a matter raised at the committee on public enterprises held on 07.03.2014 and results of disciplinary investigations are to be submitted to COPE.

4.6. Indefinite Responsibilities

I have noted to expose in the accounts of 2012.

5. Accounting and Good Governance

5.1. Submission of Financial statements

5.2. Co-operate Plan

Has been prepared by now. Has made timely required revisions

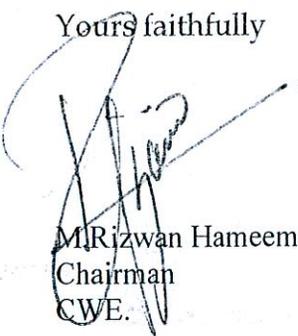
5.3. Action Plan

Has prepared under relevant annual provisions.

5.4 Budget Control

6. System Control

Yours faithfully



M. Rizwan Hameem
Chairman
CWE.

