

**THE CO-OPERATIVE WHOLESAL  
ESTABLISHMENT**

**ANNUAL  
ACCOUNTS**

**FOR THE YEAR ENDED  
31. 12. 2010**

**THE CO – OPERATIVE WHOLESALE ESTABLISHMENT**  
**ANNUAL REPORT AND ACCOUNTS**

**2010**

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**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**  
**DIRECTORATE FOR THE YEAR 2010**

Chairman

- Mr.Sagara Kariyawasam  
Attorney –at-Law  
(resigned with effect from 16<sup>th</sup> February, 2010)

- Mr.Eraj T Fernando  
(appointed on 15<sup>th</sup> June, 2010)

Working Director

- Mr.Kamal Mustapha  
(resigned with effect from 2010.05.10)

- Mr.K.M.M.Zakir  
(appointed on 15<sup>th</sup> June, 2010)

Directors

- Mr.D.Widanagamachchi  
Director/Dept.of State Accounts/General Treasury  
(Treasury Rep.-resigned with effect from 07<sup>th</sup> May, 2010)

- Mrs.Janaki Kuruppu  
(resigned with effect from 2010.05.10)

- Mr.K.N.R.Fernando  
(resigned with effect from 07<sup>th</sup> May, 2010)

- Mr.Anura Rohan Gamlath  
Attorney-at-Law  
(resigned with effect from 07<sup>th</sup> May, 2010)

- Mr.H.Chandrakumar de Silva  
Attorney-at-Law  
(resigned with effect from 2010.05.10)

- Mr.M.G.S.M.Mohomad Jaward  
(appointed on 2010.05.31)

- Mr.Donald Anthony Buljans  
(appointed on 2010.05.31)

- Mr.D.C.L.Lankathilaka  
(appointed on 2010.05.31)

- Mr.P.Dharmadasa  
Additional Secretary/Ministry of Co-operatives and Internal Trade  
(appointed on 2010.06.28)
  - Mr.K.M.Jayathilaka  
Additional Director General/Dept.of Management Audit  
General Treasury  
(Treasury Rep.-appointed on 2010.07.15)
  - Mr.M.Meril Perera.
  - Mrs.Pradeepika Lakmali Sudasinghe
  - Auditor General
  - Bank of Ceylon  
People's Bank  
Hatton National Bank  
Commercial Bank  
Sampath Bank
  - No.27, Vauxhall Street, Colombo 02.
- Acting Finance Manager
- Secretary to the Board
- Auditors
- Bankers
- Registered Office

## Annual Report-2010

### Message from the Chairman

I was appointed as the Chairman of the CWE with effect from 15.06.2010 by the Hon. Minister of Cooperative & Internal Trade. Since then following facts were observed on the researches conducted into every related fields, and on the information obtained from relevant parties.

The most significant factors discovered are that much of the assets belonging to the institution are lying idle, and there are weaknesses in the information revealed by Financial and Accounting activities and more than 500 Million is owed to government and private banks, and as a whole the institution is not actively involved in effective economical or business activity.

Therefore, I thoroughly believe that our efforts viz regular development of business activities, improving the rental income, making of better financial strength and improving the trust and confidence among the banks in respect of outstanding loans, developing agreeable atmosphere among the banks in respect of the institutions etc. could be achieved and fulfilled through a well organized programme by which human and physical resources could be utilized to the uttermost level.

Under the instructions and guidance of the Hon. Minister of Cooperative and Internal Trade, CWE could be able to intervene and influence the situation in some way when prices of the eggs and chicken escalated in the open market in uncontrollable manner during the last part of the year 2010.

Accordingly, arrangements have been made to purchase eggs from domestic poultry farmers and to establish farm shop outlets for conducting of retail and wholesale trading and specially maintain distributing methodology with Lanka Sathosa to prevent the sudden escalation of prices of essential items. It is a great achievement that as a result of our endeavours, CWE could be able to control the prices of the essential items in the open market for government.

It is expected to upgrade the production capacity of the Hingurakgoda and Pannegamwa rice processing centres which were continued under unusable conditions during the past six (06) years.

Accordingly, arrangements have been made to produce rice by upgrading these rice processing centres and distribute them among the general public through the Lanka Sathosa and Paddy Marketing Board and thereby CWE could actively involved in a fruitful economic process.

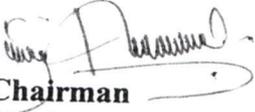
Our goal is to organize the resources belonging to the institution more effectively than they are at present and achieve higher income rate and to strengthen the financial capacity thereby.

Further, it is expected to continue the business activities of the institution smoothly by controlling the financial difficulties and settling the outstanding debts and upgrading the trust and confidence among the banks and lending institutions.

In conclusion, I would like to pay my tribute to the Hon. Minister of Cooperative and Internal Trade for his guidance and unstinted support extended to me.

It is worth mentioning here the cooperation and direction given by the Secretary to the Ministry, Staff of the Ministry and the staff of the General Treasury.

I also offer my thanks to the Board of the Directors of the Institution, staff and the union for their cooperation throughout the year.

  
**Chairman**  
08/10/2012.

## **Report of the Directors of the Cooperative Wholesale Establishment for the Year Ended 31<sup>st</sup> December 2010**

The annual report for the year ended 31<sup>st</sup> December 2010 is presented by the Board of Directors of the CWE in terms of section 14 of the Finance Act No 38 of 1971.

### 1. General

#### Principal Activities

The cooperative wholesale Establishment (CWE) better known as “Sathosa” began its business activities on 01<sup>st</sup> July, 1950, upon it was incorporated by Act No 47 of 1949.

Since its inception, the primary objective of the CWE is to operate as a retail and wholesale dealer in essential consumer products.

Voluntary Compensation Scheme was introduced in the year 2004 and 2006, due to heavy financial difficulties experienced in conducting business activities for the wellbeing of the consumers and farming community in Sri Lanka. By now, action is being taken to commence the business activities of the farm shop out lets and production activities of the rice mills belonging to the institution.

### 2. Review of the business activities.

An assessment of the establishment and its affairs is contained in the Chairman’s review which is an integral part of the Directors report. The property belonging to the institution has been rented out and the main income source of the institution is rental income paid by Lanka Sathosa and other Government and private institutions. In the meantime measures have been taken to uplift the transport division of the institution and thereby reasonable & more efficient transport service can be provided. It is expected to commence production activities of Pannegamuwa and Higurakgoda rice processing centers with the cooperation of Paddy Marketing Board and to distribute high quality rice among the public at reasonable prices through the Lanka Sathosa Marketing Networks and to become the price controller of the rice Market in respect of the government.

**Total employment strength as at 31.12.2010 is as follows**

1.	Executive	-	05
2.	Clerical & Allied Service	-	50
3.	Other assisting grades	-	195

4. Performance and the review of the business activities.

1. Income generated by trading activities

	(Rs.M)	
	Year 2009	Year 2010
Turnover	60	185
Gross profit	(1.1)	1.9
Gross profit margin	(1.8%)	1.02%

2. Other main income sources

	Year 2010 (M.)
Building rent	- 100,588,457.00
Transport Charges	- 10,397,838.00
Proceeds on the sale of unused items	- 30,709,278.00
Supply of security Services	} 39,687,464.00
Farm shop outlets	

### **Building Rent**

Unused premises and outlets belonging to the CWE has been rented out to the private parties and government institutions and adequate income has been earned thereby to meet the monthly Salaries and other overhead costs.

### **Transport Charges**

Additional income necessary for the overheads costs of the transport division has been generated by renting out several lorries and Vans belonging to the Transport Division to Lak Sathosa for transporting their consumer items.

### **Rice Production Activities**

Quantity allocated for rice production	- 848,001 Kg
Total rice production	- 634,629 Kg

### **Farm Shop outlets**

Farm shop outlets were established at Narahenpita, Ratmalana and Piliyandala Economic Centers and Welisara and Maligawatta CWE store complexes to control the prices of Chicken and eggs, during the last part of the year 2010, when price levels of Chicken and eggs was increased dramatically. Thereby consumers could be able to buy Chicken and eggs at affordable prices and this has resulted to bring down the market prices and to earn better income to the institution. It can be pointed out that the social profit transferred to the consumers in town areas and the poultry farmers is more important factor.

### Acquisition of fixed assets

### Cases filed against the institution

	No. of Cases filed as at 01.01.2010	No. of Cases disposed of during the year 2010 -	No. of Cases pending
High Courts	19	09	10
District Courts	10	-	10
Magistrate Courts	11	05	06
Labour Tribunals	14	04	10
Labour Inquiries	07	-	07
Mediation	04	02	02
Keep Down	10	-	10
Appeal Cases	01	-	01

### Receivable & Payable Accounts

Receivable loan balances and payable loan balances of CWE amounted to more than Rs. 500 Million and these loan balances have been prescribed.

As the auditors have remarked this matter, several times in their reports, action should be taken in this regard in due course.

### 3. Reserves

#### Capital and Reserves

Rs.

Capital	-	1,056,590.00
Reserves	-	427,211,894.00
Vehicle replacement reserve	-	72,218,000.00
Revelation reserve	-	1,201,386,008.00
Restructuring reserve	-	4,320,364,258.00
Accumulated profit / (Loss)	-	(9,264,271.758.00)
		-----
		<b>(3,242,035,008.00)</b>

4. **Going Concern**

CWE was unable to obtain financial assistance from any lending institutions due to accumulated losses and working capital deficiencies amounted to Rs. 8885 Million and Rs. 864 Million respectively. Due to this situation" the institution is unable to meet financial obligations on account of past dues.

However during the year under review, additional income necessary for current working capital requirements has been generated by renting out of unused buildings and disposing of idle assets.

As such 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 current financial obligations" as and when they fall due for a period of at least twelve months from the date of signing these financial statements.

5. **Auditors**

In terms of article 154 (01) of the constitution of the Democratic socialist Republic of Sri Lanka read in conjunction with section 13(01) of the Finance Act NO 38 of 1971, the auditor of the institution should be the Auditor General.

6. **Acknowledgement**

In conclusion, I would like to pay my tribute to the His Excellency President, Hon. Prime Minister, Hon. Minister of Co-operative and internal Trade, Hon. Deputy Minister, the Secretary, Additional Secretaries and the staff of the relevant Ministries for their unstinted support and guidance extended to the institution. I also offer my sincere thanks to the staff of the Ministry of Finance, Treasury and other Ministries for their cooperation throughout the year.

The dearest and most important asset is our employees. We would like to pay our gratitude to all the employees for their cooperation throughout the year.

The Board of Directors also wishes to offer their thanks to the valued consumer community for their continuous patronage extended for the institution. Also we wish to extend out thanks to the various statutory institutions, private sector Institutions and our bankers for their continued support and the confidence they placed on us.

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

<b>TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31.12.2010</b>			
	<b>Note</b>	<b>YEAR 2010 RS</b>	<b>YEAR 2009 RS</b>
<b>TURNOVER :</b>			
General Trading	2	185,605,726	60,220,332
Turnover Tax		(2,784,086)	(953,305)
<b>NET TURNOVER</b>		<b>182,821,640</b>	<b>59,267,027</b>
<b>GROSS PROFIT/( LOSS)</b>			
General Trading	2	1,993,882	(1,132,039)
<b>TOTAL GROSS PROFIT/(LOSS)</b>		1,993,882	(1,132,039)
Administration, Selling & Distribution Expenses	3A & 3B	(165,319,509)	(170,745,445)
<b>TRADING PROFIT /(LOSS)</b>		(163,325,627)	(171,877,484)
Bank Interest		(21,000,000)	(23,840,131)
<b>OPERATING PROFIT/(LOSS)</b>		(184,325,627)	(195,717,615)
Other Income	4	186,625,740	241,718,501
		2,300,113	46,000,886
<b>PROFIT/(LOSS) FROM OPERATIONS</b>		2,300,113	46,000,886
LESS : PRIOR YEAR ADJUSTMENTS		-	(433,650,657)
EXCEPTIONAL ITEMS	4A	(381,412,591)	
<b>NET PROFIT / ( LOSS ) BEFORE TAX TAXATION</b>		<b>(379,112,478)</b>	<b>(387,649,771)</b>
<b>NET PROFIT / ( LOSS ) AFTER TAX</b>		(379,112,478)	(387,649,771)
ADD: PROFIT/(LOSS) BROUGHT FORWARD		(8,885,159,280)	(8,497,509,509)
<b>BALANCE PROFIT / ( LOSS ) CARRIED FORWARD</b>		<b>(9,264,271,758)</b>	<b>(8,885,159,280)</b>

## THE CO-OPERATIVE WHOLESALE ESTABLISHMENT

<b>BALANCE SHEET</b>			
<b>AS AT 31ST DECEMBER 2010</b>		Note	
			YEAR 2010 RS
			YEAR 2009 RS
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, Plant and Equipment	5	1,110,517,321	1,127,018,147
Investments	6	181,852,410	181,852,410
		<b>1,292,369,731</b>	<b>1,308,870,557</b>
<b>CURRENT ASSETS</b>			
Stocks, Stores & W-I-P	8	110,518,117	29,942,699
Debtors, Prepay. & Deposits (Less. Provision)	9	444,050,276	745,821,479
Cash in hand and at Bank	10	61,357,878	72,814,908
		<b>615,926,271</b>	<b>848,579,086</b>
<b>TOTAL ASSETS</b>		<b>1,908,296,002</b>	<b>2,157,449,643</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL &amp; RESERVES</b>			
Capital	11	1,056,590	1,056,590
Reserves		427,211,894	427,211,894
Vehicle Replacement Reserve		72,218,000	72,218,000
Revaluation Surplus		1,201,386,008	1,201,386,008
Re-structuring Reserve	7	4,320,364,258	3,616,293,377
Accumulated Profit (Loss)		(9,264,271,758)	(8,885,159,280)
		<b>(3,242,035,008)</b>	<b>(3,566,993,411)</b>
<b>NON CURRENT LIABILITIES</b>			
Long Term Liabilities	12	3,827,326,333	3,989,232,717
Retirement Benefit Obligations	14	26,193,505	22,314,963
		<b>3,853,519,838</b>	<b>4,011,547,680</b>
<b>CURRENT LIABILITIES</b>			
Short Term Borrowings & Current Portion of Interest bearing Borrowings	15	209,231,254	204,003,057
Creditors & Accruals	13	1,086,094,000	1,485,637,273
Bank Overdraft	16	1,485,919	23,255,044
		<b>1,296,811,172</b>	<b>1,712,895,374</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,908,296,002</b>	<b>2,157,449,643</b>

25.02.2011

The accounting policies and notes form an integral part of these Financial Statements.

  
CHAIRMAN

  
FINANCE MANAGER

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

**CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31ST DECEMBER 2010**

**CASH FLOW FROM OPERATING ACTIVITIES**

Net Profit /(Loss) before Taxation & Extraordinary Items

Adjustments for :

Depreciation

Investments written - off

(Profit)/Loss on Sale of Fixed Assets

Gratuity Provision

Creditors written - off transferred to reserve

Operating Profit before Working Capital changes

(Increase) / Decrease in Stocks

(Increase) / Decrease in Debtors

Increase / ( Decrease) in Payables

Cash generated from operations

Gratuity Paid

Net Cash Flow From Operating Activities

Cash Flow From Investing Activities

**Fixed Assets**

Proceeds From Sale of Fixed Assets

( Increase)/Decrease in Fixed Deposits

Acquisition of fixed assets

Net cash used in investing activities

Cash Flow From Financing Activities

Repayment of Loans

Increase in Short Term Borrowings

Net cash used in Financing Activities

Increase in Reserves

Net Movement in Cash & Cash Equivalents

Net Increase in Cash and Cash Equivalents

Balance as at 01ST January

Balance as at 31ST December

	<b>YEAR 2010 RS</b>	<b>YEAR 2009 RS</b>
	(379,112,478)	(387,649,771)
	19,576,219	20,039,282
	(30,709,278)	(113,264,795)
	4,781,414	4,351,087
	542,164,547	
	<b>156,700,424</b>	<b>(476,524,197)</b>
	(80,575,418)	28,241,352
	301,771,203	334,118,836
	(444,315,076)	14,166,929
	<b>(66,418,867)</b>	<b>(99,997,080)</b>
	(902,870)	(2,408,305)
	<b>(67,321,737)</b>	<b>(102,405,385)</b>
	30,554,635	171,793,733
	-	21,725,214
	(2,920,801)	
	<b>27,633,834</b>	<b>193,518,947</b>
		(5,228,198)
	50,000,000	-
	-	-
	<b>10,312,097</b>	<b>85,885,364</b>
	49,559,864	(36,325,500)
	59,871,961	49,559,864
	<b>10,312,097</b>	<b>85,885,364</b>

**THE CO-OPERATIVE WHOLESALERE ESTABLISHMENT**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010**

	CAPITAL	CAPITAL RESERVE	GENERAL RESERVE	LOAN REDEMPTION RESERVE	VEHICLE REPLACEMENT RESERVE	REVALUATION SURPLUS	RESTRUCTURING RESERVE	ACCUMULATED LOSSES	TOTAL
<b>Balance as at 01.01.2002</b>	1,056,590	32,444,879	94,477,411	300,289,604	72,218,000	1,159,246,538	-	(4,054,023,763)	(2,394,290,747)
Net Loss for the period								(1,640,682,626)	(1,640,682,626)
<b>Balance as at 31.12.2002</b>	<b>1,056,590</b>	<b>32,444,879</b>	<b>94,477,411</b>	<b>300,289,604</b>	<b>72,218,000</b>	<b>1,159,246,538</b>	<b>-</b>	<b>(5,694,706,391)</b>	<b>(4,034,973,369)</b>
<b>Balance as at 01.01.2003</b>	1,056,590	32,444,879	94,477,411	300,289,604	72,218,000	1,159,246,538	-	(5,694,706,392)	(4,034,973,370)
Net Loss for the period								(1,162,050,602)	(1,162,050,602)
<b>Balance as at 31.12.2003</b>	<b>1,056,590</b>	<b>32,444,879</b>	<b>94,477,411</b>	<b>300,289,604</b>	<b>72,218,000</b>	<b>1,159,246,538</b>	<b>-</b>	<b>(6,856,756,994)</b>	<b>(5,197,023,972)</b>
<b>Balance as at 01.01.2004</b>	1,056,590	32,444,879	94,477,411	300,289,604	72,218,000	1,159,246,538	-	(6,856,756,994)	(5,197,023,972)
Net Loss for the period								(970,929,555)	(970,929,555)
<b>Balance as at 31.12.2004</b>	<b>1,056,590</b>	<b>32,444,879</b>	<b>94,477,411</b>	<b>300,289,604</b>	<b>72,218,000</b>	<b>1,159,246,538</b>	<b>-</b>	<b>(7,827,686,549)</b>	<b>(6,167,953,527)</b>
<b>Balance as at 01.01.2005</b>	1,056,590	32,444,879	94,477,411	300,289,604	72,218,000	1,159,246,538	-	(7,827,686,548)	(6,167,953,526)
Net Loss for the period								(164,723,497)	(164,723,497)
<b>Balance as at 31.12.2005</b>	<b>1,056,590</b>	<b>32,444,879</b>	<b>94,477,411</b>	<b>300,289,604</b>	<b>72,218,000</b>	<b>1,159,246,538</b>	<b>-</b>	<b>(7,992,410,045)</b>	<b>(6,332,677,023)</b>
<b>Balance as at 01.01.2006</b>	1,056,590	32,444,879	94,477,411	300,289,604	72,218,000	1,159,246,538	-	(7,992,410,045)	(6,332,677,023)
Net Loss for the period								(556,539,593)	(556,539,593)
<b>Balance as at 31.12.2006</b>	<b>1,056,590</b>	<b>32,444,879</b>	<b>94,477,411</b>	<b>300,289,604</b>	<b>72,218,000</b>	<b>1,159,246,538</b>	<b>-</b>	<b>(8,548,949,638)</b>	<b>(6,889,216,616)</b>
<b>Balance as at 01.01.2007</b>	1,056,590	32,444,879	94,477,411	300,289,604	72,218,000	1,159,246,538	-	(8,548,949,638)	(6,889,216,616)
Net Loss for the period								(4,854,299)	(4,854,299)
Changes during the year						35,947,000			35,947,000
<b>Balance as at 31.12.2007</b>	<b>1,056,590</b>	<b>32,444,879</b>	<b>94,477,411</b>	<b>300,289,604</b>	<b>72,218,000</b>	<b>1,195,193,538</b>	<b>-</b>	<b>(8,553,803,937)</b>	<b>(6,858,123,915)</b>
<b>Balance as at 01.01.2008</b>	1,056,590	32,444,879	94,477,411	300,289,604	72,218,000	1,195,193,538	-	(8,553,803,937)	(6,858,123,915)
Net Profit/ (Loss) for the period								56,294,429	56,294,429
Amount Transferred							2,321,042,705		2,321,042,705
<b>Balance as at 31.12.2008</b>	<b>1,056,590</b>	<b>32,444,879</b>	<b>94,477,411</b>	<b>300,289,604</b>	<b>72,218,000</b>	<b>1,195,193,538</b>	<b>2,321,042,705</b>	<b>(8,497,509,508)</b>	<b>(4,480,786,782)</b>
<b>Balance as at 01.01.2009</b>	1,056,590	32,444,879	94,477,411	300,289,604	72,218,000	1,195,193,538	2,321,042,705	(8,497,509,508)	(4,480,786,781)
Net Profit/ (Loss) for the period								(387,649,771)	(387,649,771)
Amount Transferred						6,192,470	1,295,250,672		1,301,443,142
<b>Balance as at 31.12.2009</b>	<b>1,056,590</b>	<b>32,444,879</b>	<b>94,477,411</b>	<b>300,289,604</b>	<b>72,218,000</b>	<b>1,201,386,008</b>	<b>3,616,293,377</b>	<b>(8,885,159,279)</b>	<b>(3,566,993,410)</b>
<b>Balance as at 01.01.2010</b>	1,056,590	32,444,879	94,477,411	300,289,604	72,218,000	1,201,386,008	3,616,293,377	(8,885,159,279)	(3,566,993,410)
Net Profit/ (Loss) for the period								(379,112,478)	(379,112,478)
Amount Transferred							704,070,881		704,070,881
<b>Balance as at 31.12.2010</b>	<b>1,056,590</b>	<b>32,444,879</b>	<b>94,477,411</b>	<b>300,289,604</b>	<b>72,218,000</b>	<b>1,201,386,008</b>	<b>4,320,364,258</b>	<b>(9,264,271,757)</b>	<b>(3,242,035,007)</b>

## THE CO-OPERATIVE WHOLESALE ESTABLISHMENT

### NOTES ON FINANCIAL STATEMENTS FOR THE YEAR ENDED 31.12.2010.

#### NOTE 1 :

#### **PRINCIPAL ACCOUNTING POLICIES :**

##### **(a) 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.680 (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.

(b) The financial statements have been prepared as per Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. No adjustments made for inflationary factors affecting these accounts except for certain assets which are reflected at valuation.

A summary of the important Accounting Policies are set out below :

##### **(c) FIXED ASSETS & RATES OF DEPRECIATION**

###### **Fixed Assets :**

- (i) Property, plant & equipments are stated at cost or valuation less accumulated depreciation.
- (ii) Free hold land and buildings have been revalued at the open market rate with effect from 31<sup>st</sup> December, 1997. Valuation was done by independent valuers. The surplus of Rs.1,159,246,538/- has been transferred to a Revaluation Surplus Account.
- (iii) Motor vehicles have been revalued at open market rates with effect from 31.12.2009 and 31.12.2010 respectively. Valuation was done by independent valuers and the surplus Rs.6,192,470/- has been transferred to Revaluation Surplus Account.
- (iv) All other fixed assets are stated at cost of purchase or construction, together with expenses incidental to acquisition or construction.

**Depreciation :**

- (i) The charge for depreciation commences in the year following the year of purchase or completion of construction of the asset and is provided for on a consistent basis over a period appropriate to the estimated lives of the different types of assets.
- (ii) Depreciation is charged on the straight line basis over the estimated useful lives of such assets. The rates used are as follows :

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

**(d) STOCKS :**

Stocks have been determined at a physical verification and valued at Rs.110,518,117/- based on purchase price or net realizable value whichever is lower.

The cost of purchase is inclusive of purchase price, import duties and other taxes and transport, handling and other costs directly attributable to the acquisition of goods.

As at 31.12.2010 CWE held 6,589 kg of paddy stocks valued at Rs.2,084,171/- and 44,412 kg of rice stocks valued at Rs.22,306,621/- belonging to Paddy Marketing Board.

**(e) DEBTORS :**

Debtors are stated at their estimated realizable value. Provision is made for bad and doubtful debts at 10% on debtors and full provision (specific) made for unrecoverable debts.

Current Account balance Rs.381,412,591/- of Sathosa Retail Limited as at 31.12.2003, having adjusted for restructuring transactions has been written-off as per clause 6.2 (d) of the Purchase Agreement.

**(f) REVENUE RECOGNITION :**

Revenue is recognized at the time of invoicing.

**(g) OPERATIONS OF TRANSPORT DEPARTMENT :**

Operations of the Transport Department have been incorporated into General Trading Working Account.

**(h) TERMINAL BENEFITS :**

Provision is made in the accounts for retiring gratuities falling due for payment under the Payment of Gratuities Act No. 12 of 1983, for all qualifying employees. The employees qualify for this benefit on completing 5 years of continuous service with the establishment. This liability is not externally funded or actuarially valued.

**(i) INVESTMENTS :**

Investments at Ingrin Institute of Printing & Graphic and Sathosa Retail Limited have been valued at cost.

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

**NOTE : 2**

<b>GENERAL TRADING WORKING ACCOUNT</b>		
	<b>YEAR 2010 RS</b>	<b>YEAR 2009 RS</b>
GROSS SALES	185,605,726	60,220,332
Turnover Tax	(2,784,086)	(953,305)
	<b>182,821,640</b>	<b>59,267,027</b>
COST OF SALES	180,827,758	60,399,065
GROSS PROFIT	1,993,882	(1,132,039)
TOTAL CONTRIBUTION	1,993,882	(1,132,039)
Administration Expenses	(78,857,485)	(77,780,154)
Selling & distribution Expenses	(86,462,024)	(92,965,291)
Bank Interest	(21,000,000)	(23,840,131)
	(186,319,509)	(194,585,576)
Other Income	186,625,740	241,718,501
<b>NET PROFIT / ( LOSS )</b>	<b>2,300,113</b>	<b>46,000,886</b>

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

<b>NOTE 3 A : ADMINISTRATION EXPENSES</b>		
	<b>YEAR 2010 RS</b>	<b>YEAR 2009 RS</b>
Directors Fees	648,275	884,348
Staff Emoluments	34,540,779	31,470,881
Employees' Provident Fund & Trust Fund	3,049,950	3,081,874
Bonus	111,500	105,400
Provision for Gratuity	2,390,707	2,175,544
Staff Welfare	731,264	694,555
Rent, Rates & Taxes	2,216,599	3,694,044
Electricity	6,226,896	6,328,882
Printing & Stationery	200,645	130,555
Insurance	252,550	133,851
Postage & Telephone charges	472,331	491,029
Advertising	104,780	-
Travelling & Subsistence, Car Running Exp	3,967,908	3,931,512
Repairs & Maintenance	8,330,387	5,899,292
Sundry Expenses	2,877,377	3,981,330
Professional Fees	134,738	214,592
Ministry Expenses		200,000
Audit Fees	800,000	800,000
Legal Expenses	1,393,797	2,673,470
Depreciation	9,788,111	10,019,641
Staff Compensation	618,890	869,356
	<b>78,857,485</b>	<b>77,780,154</b>

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

<b>NOTE 3B : SELLING AND DISTRIBUTION EXPENSES</b>		
	<b>YEAR 2010 RS</b>	<b>YEAR 2009 RS</b>
Staff Emoluments	34,540,779	31,470,881
Employees' Providend Fund & Trust Fund	3,049,950	3,081,874
Bonus	111,500	105,400
Provision for Gratuity	2,390,707	2,175,544
Staff Welfare	731,264	694,555
Travelling, Subsistence & Car Running Expences	3,980,408	3,931,512
Rent, Rates & Taxes	3,454,099	3,694,044
Postage, Telegrams & Telephone	472,331	491,029
Sundry Expenses	2,877,377	3,981,330
Profit/Loss on Price Reduced Stocks	28,418	(11,380)
Electricity	6,226,895.78	6,328,882
Advertising & Sales Promotion	104,780	169,288
Printing & Stationery	200,645	130,555
Depreciation	9,788,111	10,019,641
Repairs & Maintenance	8,330,387	2,352,760
Provision for Bad & Doubtful Debts	8,630,612	22,592,367
Professional Fees	134,738	214,592
Insurance	252,550	443,792
Licence Fee	537,582	229,271
Staff Compensation	618,890	869,356
	<b>86,462,024</b>	<b>92,965,291</b>

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

	<b>2010 RS</b>	<b>2009 RS</b>
<b>NOTE 4 : OTHER INCOME</b>		
Rental Income	100,588,457	99,763,595
Interest	5,242,703	4,428,342
Profit on Sale of Fixed Assets	30,709,278	119,457,253
Exchange Difference	-	220,628
Transport income	10,397,838	11,577,920
Miscellaneous Income	39,687,464	6,270,763
	<b>186,625,740</b>	<b>241,718,501</b>

	<b>2010 RS</b>	<b>2009 RS</b>
<b>NOTE 4A : EXCEPTIONAL ITEMS</b>		
CWE Current account balance as at 31.12.2003 with SATHOSA RETAIL LTD.after incorporating the restructuring transactions written - off as per clause 6.2(d) of the purchase agreement.	381,412,591	-
	<b>381,412,591</b>	-

NOTE : 5  
FIXED ASSEST & CAPITAL WORK IN PROGRESS 31.12.2010

	BALANCE AT COST		ADDITIONS 2010	DISPOSALS 2010	BALANCE AS AT		DEPRECIATION			NET BOOK VALUE 31.12.2010
	01.01.2010	31.12.2010			AS AT 01.01.2010	AS AT 31.12.2010	CHARGE FOR THE YEAR 2010	DISPOSALS 2010	ACCUMULATED AS AT 31.12.2010	
FREE HOLD LAND	955,510,235	955,510,235	-	-	-	-	-	-	-	955,510,235
LEASEHOLD LAND	2,311,930	2,311,930	-	-	-	-	-	-	-	2,311,930
BUILDINGS ON FREE HOLD LAND	220,090,417	220,090,417	-	-	-	130,143,233	11,004,461	-	141,147,694	78,942,723
BUILDINGS ON LEASE HOLD LAND	2,288,203	2,288,203	-	-	-	2,065,124	93,543	-	2,158,667	129,536
BUILDINGS ON CROWN LAND	82,252,459	82,252,459	-	-	-	46,262,971	3,352,740	-	49,615,711	32,636,748
VAUXHALL GARAGE	16,460,291	16,460,291	-	-	-	10,096,685	823,015	-	10,919,699.55	5,540,591
PLANT & MACHINERY	88,163,606	88,163,606	-	-	-	87,619,648	308,997	-	87,928,645	234,960
MOTOR VEHICLES	39,475,999	39,475,999	-	-	-	4,983,200	2,491,600	-	7,474,800	32,001,199
FURNITURE & OFFICE EQUIPMENT	51,744,688	47,778,931	720,983	4,686,720	-	50,194,288	975,521	4,700,697	46,469,112	1,309,819
COMPUTER ACCESSORIES	75,262,900	76,270,112.50	1,216,773	209,560	-	75,262,900	405,591	93,547	75,574,944	695,169
WARE HOUSE EQUIPMENT	85,530,513	49,955,807	367,260	35,941,966	-	85,530,512	-	35,941,966	49,588,546	367,261
TOOLS & EQUIPMENT	44,880,291	45,494,529	615,805	1,567	-	44,794,827	120,752	258,258	44,657,321	837,208
DEFERRED CAPITAL EXPENDITURE	-	-	-	-	-	-	-	-	-	-
CAPITAL WORK IN PROGRESS	1,663,971,532	1,626,052,520	2,920,901	40,839,813	19,576,219	536,953,388	40,994,468	-	515,535,139	1,110,517,381

Less : Incorrect J/E NO. 35 in 2010 to be adjusted in 2011

(60)  
1,110,517,321

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

**NOTE 6 : INVESTMENTS**

	<b>YEAR 2010 RS</b>	<b>YEAR 2009 RS</b>
Sathosa Motors Limited	10	10
Ingrin Institute of Printing and Graphics	9,923,710	9,923,710
Sathosa Retail Ltd	171,928,690	171,928,690
	<b>181,852,410</b>	<b>181,852,410</b>

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

**NOTE 7 : RESTRUCTURING RESERVE**

	<b>YEAR 2010 RS</b>	<b>YEAR 2009 RS</b>
Treasury grants for settlement of :		
VRS	1,506,563,583	1,506,563,583
TR Loans	275,000,000	275,000,000
Bond Interest	1,996,636,128	1,834,729,794
Creditors Written -Off	542,164,547	
	<b>4,320,364,258</b>	<b>3,616,293,377</b>

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

**NOTE 8 : STOCKS**

	<b>YEAR 2010 RS</b>	<b>YEAR 2009 RS</b>
<b>GENERAL TRADING STOCK</b>		
Wholesale stock	103,559,666	22,984,347
C & D class stock	28,418	-
	<b>103,588,084</b>	<b>22,984,347</b>
Provision for condemned goods	(28,418)	-
	103,559,665	22,984,347
TRANSPORT DEPARTMENT STOCK:	2,360,907	2,360,907
<b>OTHERS</b>		
Building Department stock	4,143,032	4,143,032
Spare parts stock		454,412
Packing Materials	454,512	-
Finished Goods Oil/ Vineger stock-Welisara		-
	<b>110,518,117</b>	<b>29,942,699</b>

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

**NOTE 09 : DEBTORS, PREPAYMENTS AND DEPOSITS**

	<b>Gross 2010</b>	<b>Total Provision</b>	<b>Rs. Net Debtors 2010</b>
<b>TRADE DEBTORS:</b>			
Co-operatives	11,437,214	1,143,721	10,293,493
Government Departments Corporations	11,873,103	1,187,310	10,685,793
Other Customers	3,179,405	317,941	2,861,465
	117,377,418	11,737,742	105,639,676
	<b>143,867,140</b>	<b>14,386,713</b>	<b>129,480,427</b>
<b>DISHONOURD CHEQUES :</b>			
Government Departments	-	-	-
Co-operatives & Corporations.	-	-	-
Other Customers	3,830,707	383,071	3,447,636
	<b>3,830,707</b>	<b>383,071</b>	<b>3,447,636</b>
<b>RENT DEBTORS:</b>			
Other Customers	124,551,893	68,539,508	56,012,385
	<b>124,551,893</b>	<b>68,539,508</b>	<b>56,012,385</b>
<b>CURRENT A/C. WITH SUBSIDIARY COMPANIES :</b>			
Sathosa Wholesale Ltd	-	-	-
Sathosa Retail Ltd.	142,408,758	142,408,758	-
Sathosa Security Ltd.	4,441,677	444,168	3,997,509
Lak sathosa ltd	24,202,985	24,202,985	-
	<b>171,053,420</b>	<b>167,055,911</b>	<b>3,997,509</b>
<b>Short term loans</b>			
Building Materials Carp.	10,000,000		10,000,000
DEPOSITS, PREPAYMENTS & ADVANCES	31,537,005	3,053,701	28,483,304
DUES FROM TREASURY	100,000,000	100,000,000	-
SALARIES & STAFF LEDGER CONTROL ACCOUNT	4,189,707	418,971	3,770,737
CLAIMS RECEIVABLE	6,932,494	693,249	6,239,245
SUNDRY & OTHER DEBTORS	31,441,577	3,144,158	28,297,419
<b>TOTAL GENERAL TRADING DEBTORS</b>	<b>174,100,783</b>	<b>107,310,079</b>	<b>76,790,704</b>
FLOUR OPERATION DEBTORS:			
National Security Levy - Advance	234,321,615	60,000,000	174,321,615
	<b>234,321,615</b>	<b>60,000,000</b>	<b>174,321,615</b>
	<b>851,725,558</b>	<b>417,675,282</b>	<b>444,050,276</b>

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

<b>NOTE 10 : CASH- IN- HAND AND AT BANKS</b>		
	<b>YEAR 2010 RS</b>	<b>YEAR 2009 RS</b>
HNB Savings	266,032	241,032
Sampath Bank UPB	141,589	141,589
Postage & Petty Cash Imprest	2,042,553	2,085,998
People's Bank Savings	665	666
Day sheet Control	1,375,438	(15,812,879)
Credit Cards		2,045,045
Seylan Bank	221,269	221,269
Bank Transfer		-
Domestic Foreign Currency	2,660,872	2,724,677
Bank Of Ceylon		3,700
Commercial Bank	54,640,071	81,130,969
Excess Debits	32,842	32,842
People's Bank		-
Smart Card	(23,453.00)	
	<b>61,357,878</b>	<b>72,814,908</b>

## THE CO-OPERATIVE WHOLESALE ESTABLISHMENT

### NOTE 11 : RESERVES

	YEAR 2010 RS	YEAR 2009 RS
Capital Reserve	32,444,879	32,444,879
General Reserve	94,477,411	94,477,411
Loan Redemption Reserve A/C	300,289,604	300,289,604
	<b>427,211,894</b>	<b>427,211,894</b>

### NOTE 12 : LONG TERM LIABILITIES

Total Interest payable on Rs4,397 mn bonds over 13 yrs as per agreement :-

Balance on 01.01.09

Les:- Amount paid by Treasury during the year

Present value of Rs 4,397 mn bonds discounted at 8.5% per annum

2,266,688,626	3,561,939,348
(161,906,334)	(1,295,250,672)
1,522,544,041	1,522,544,041
<b>3,627,326,333</b>	<b>3,789,232,717</b>

The liability to Treasury of Rs 200 Mn has been arrived as follows

Sales proceeds from SRL

Amount paid to creditors of SRL

Amount paid to HSBC, Commercial Bank

Amount Paid to HNB

Amount Paid to Creditors

Amount Payable to Govt. of Sri Lanka

680,000,000	680,000,000
555,000,000	555,000,000
200,000,000	200,000,000
25,000,000	25,000,000
100,000,000	100,000,000
200,000,000	200,000,000
<b>3,827,326,333</b>	<b>3,989,232,717</b>

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.

### NOTE 13 : CREDITORS & ACCRUALS

#### **CWE**

Trade Creditors

Import purchases & Charges

Treasury - Advance Paddy

Salary & Dues to Employees

Staff Security Deposit & Interest

TR Loans People's Bank(Guaranteed by Treasury)

Other Creditors

2010 Rs.	2009 Rs.
97,152,128	48,479,685
221,791,461	278,639,036
254,149,693	254,149,693
3,795,500	40,810,159
2,908,539	2,957,156
207,050,943	207,050,943
249,245,736	511,274,126
<b>1,036,094,000</b>	<b>1,343,360,796</b>

#### **Short term Loan**

Co -Operative commissioner

#### **FLOUR OPERATION**

Others Creditors

Transferred from Retail Ltd

50,000,000	-
-	54,646,460
-	87,630,016
<b>1,086,094,000</b>	<b>1,485,637,273</b>

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT**

<b>NOTE 14 : RETIREMENT BENEFIT OBLIGATIONS</b>	<b>CWE 2010 RS</b>	<b>CWE 2009 RS</b>
<b>Balance as at 01.01.09</b>	22,314,962	20,372,180
Amount Paid During the Year	(902,870)	(2,408,305)
Amount Charged For the Year	4,781,414	4,351,087
<b>Balance as at 31.12.09</b>	<b>26,193,506</b>	<b>22,314,962</b>
<b>NOTE 15 : BANK LOANS</b>		
Bank of Ceylon Balance after debt restructuring } Peoples Bank Hatton National Bank	100,000,000 66,231,254 43,000,000	100,000,000 61,003,057 43,000,000
	<b>209,231,254</b>	<b>204,003,057</b>
<b>NOTE 16 : BANK OVERDRAFT</b>		
<b>CWE</b>		
Excess Credits		-
Bank Transfers		9,596,445
People's Bank -Foreign Branch		-
Sampath Bank	1,243,775	1,243,775
Peoples Bank - New Account 2007		10,258,045
Depot Bank	242,144	242,144
General Receipt control A/C		89,275
Citi Bank		314,492
Commercial bank		1,510,867
	<b>1,485,919</b>	<b>23,255,044</b>

**NOTE 17 :**

**Reasons for not consolidating subsidiaries :  
Sathosa Retail Ltd.**

CWE has disposed of 40% of shares of Sathosa Retail Ltd., to a private consortium in 2003 and due to non-availability of accounts of Sathosa Retail Ltd., which was dissolved by Court order in 2006, we have not prepared consolidated accounts in the past.

**NOTE 18 :**

**Contingent liabilities :**

- (1) Deemed Dividend Tax – Department of Inland Revenue has issued assessment for year 1992/1993 as follows :

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

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 stating their case has stated only a claim for Deemed Dividend Tax and not on penalty.

- (2) Employees retired at 55 years age have filed legal action in Supreme Court and contingent liability is estimated at Rs.3.8 Mn.
- (3) There are 106 cases filed with Human Rights Commission by past employees and we are unable to make an estimate of the financial effect of these cases.

**NOTE 19 :**

**Taxation**

**Income Tax :**

Taxation has been computed in accordance with the Inland Revenue Act No. 38 of 2000. There is no tax liability as the carried forward tax loss for Y/A 2009/2010 and 2010 / 2011 is Rs.9.7 (Billion) and Rs.10.3 (Billion) respectively.

**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 20 :**

**Sathosa Retail Limited :**

Sathosa Retail Limited which was a subsidiary of CWE had been dissolved by the District Court, Colombo on 23<sup>rd</sup> October, 2006 and the liquidation process is not finalized as yet.

**NOTE 21 :**

**Directors interest in shares :**

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

**NOTE 22 :**

**Directors interest in contracts :**

Directors have no interest in contracts with CWE.

**NOTE 23 :**

**Related party transactions :**

CWE Chairman is also the Chairman of State Trading (Co-operative Wholesale) Co. Ltd., and C.W.E. Security and Janitorial Services (Private) Ltd. During the year under review imports made by State Trading (Co-operative Wholesale) Co. Ltd., has been transferred to CWE to the value of Rs.122 Million

**NOTE 24 :**

**Events after Balance Sheet date :**

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

**NOTE 25 :**

**Cash and Cash Equivalent :**

Cash and cash equivalent comprises cash in hand, demand deposit with banks and bank borrowings.

**NOTE 26 :**

**Long Term Liabilities :**

In December, 2003 Government of Sri Lanka issued Bonds to the value of Rs.4,397 Million to the respective banks by way of settlement of loans. CWE was requested in turn to hand over assets to the value of Rs.1.8 Billion in 2005 to PERC for sale and remit to the Treasury, being present value of Rs.4,397 Million. However as this arrangement was not implemented, the Treasury has been apprised of same.



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**கணக்காய்வாளர் தலைமை அறிப்பதி திணைக்களம்**  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය  
எனது இய  
My No

SC/E/CWE/FA/AMND/A/ 2010

මගේ අංකය  
உமது இல  
Your No

දිනය  
திகதி  
Date

20 July 2012

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 2010 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 2010 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 6 of the Co-operative Wholesale Establishment (Amended) Act, No. 12 of 1969 and Section 13(1) of the Finance Act, No. 38 of 1971. 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 Section 13(7)(a) of the Finance Act was issued to the Chairman of the Establishment on 21 December 2011.

**1.2 Responsibility of the Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

අංක 306/72 පොල්දූව පාර,  
බත්තරමුල්ල, ශ්‍රී ලංකාව

இல. 306/72, பொல்துவ வீதி,  
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No.306/72, Polduwa Road,  
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ஈ- மெயில்  
E-mail. } oaggov@slt.net.lk

### **1.3 Scope of Audit and Basis of Opinion**

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My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I therefore believe that my audit provides a reasonable basis for my opinion. Sub-sections (3) and (4) of Section 13 of Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

## **2. Financial Statements**

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### **2.1 Opinion**

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In view of my comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Co-operative Wholesale Establishment for the year ended 31 December 2010 presented for audit.

## **2.2 Comments on Financial Statements**

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### **2.2.1 Presentation of Financial Statements**

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- (a) The Committee on Public Enterprises had directed the Chairman of the SATHOSA on 13 October 2011 to prepare anew the financial statements for the year 2010 and submit to audit. Such financial statements prepared anew had been presented to audit on 05 January 2012.
- (b) The cost of sales had not been included in the financial statements and the manner of computation of the cost of sales had not been disclosed in the financial statements by way of an adequate Note.

### **2.2.2 Sri Lanka Accounting Standards (SLAS)**

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

- (a) SLAS 03
- Even though the preparation and presentation of the financial statements of the Establishment should be done in accordance with the guidelines in Sri Lanka Accounting Standard No. 3, the Income Statement and the Balance Sheet of the SATHOSA had not been prepared and presented in relation to the following.
- Non-disclosure of the cost of sales on the face of the Income Statement.
  - Non-presentation of the Income Statement on the standard format.
  - Subsequent adjustment of other income to the operating results.

(b) SLAS 05

Even though the policy on the recognition, accounting and disclosure of stocks had been disclosed, the evidence in support of action taken in compliance thereof had not been furnished to audit.

(c) SLAS 09 &  
18

(i) The profit on the sale of fixed assets had been overstated by a sum of Rs.192,889 in the Cash Flow Statement and a numeric reconciliation which was incomplete and contrary to accounting principles had been made in the reply.

(ii) The revaluation of assets should be determined through an evaluation carried out by a professionally qualified Assessor and the basis of revaluation and the nature of indicators for the determinations of replacement cost should be disclosed in the financial statements. Contrary to such provisions, the motor vehicles had been revalued based on the evaluations made by the Manager of the Transport Division.

(d) SLAS 36

(i) Even though the test checks revealed that a sum of Rs.1,043,768 had been paid as legal expenses a sum of Rs.1,393,797 had been shown as legal expenses in the final accounts. Nevertheless, the Management had shown a sum of Rs.741,840 in the Schedules of Legal Expenses for the year 2010. As such no disclosure had been made in respect of expenses amounting to Rs.651,957.

- (ii) Five cases had been filed against the Establishment demanding compensation amounting to Rs.3,895,235 for the non-payment of the Employees' Provident Fund payments. The sum of Rs.3.8 million disclosed in Note No. 18 to the financial statements in connection with this contingent liability had been shown as an estimated value of Rs.2.7 million in the reply submitted to the audit. The reasons for the difference and the basis of estimating had not been furnished to audit.

### **2.2.3 Overstatements and Understatements in the Accounts**

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Two motor cycles and a trailer valued at Rs.97,000 had been sold on 01 February 2010. But the cost of those amounting to Rs.97,000 and the depreciation provision of Rs.12,000 thereon had not been eliminated from the accounts.

### **2.2.4 Unreconciled Control Accounts**

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- (a) According to the summarized schedule presented with the final accounts, the value of furniture and office equipment amounting to Rs.51,744,688 as at 31 December 2009 had been shown as Rs.51,937,589 as at 01 January 2010. Action had not been taken to reconcile the differences of Rs.8,211,421 and Rs.8,116,617 between the detailed schedule and the summarized schedule relating to the Furniture and Equipment Account and the Provision for Depreciation Account as at 31 December 2009. Even though the management had informed the audit that the adjustments were made in the year 2010, the management had failed to furnish the evidence in support of the adjustments made.

- (b) Differences totaling Rs.2,268,498,943 were observed between the comparative figures of 07 items of accounts for the year 2009 shown in the financial statements for the year 2010.
- (c) A reconciliation of the value of account balances shown in the financial statements for the year 2010 with the value of account balances shown in the trial balance, differences totaling Rs.2,838,392,254 in 43 account balances were observed. Even though the reasons for such debtors were furnished to audit, adequate evidence in support, reconciliation statements, schedules etc, had not been furnished to audit.
- (d) The Establishment had furnished the hard copy of the General Ledger for the year only on 02 February 2012 and as such it was not possible to reconcile the amounts appearing in the financial statements for the year 2010 with the closing balances in the ledger and transactions and establish the accuracy.
- (e) A difference of Rs.147,358 between the total expenditure shown in the amended financial statements presented subsequently and the financial statements presented previously and differences totaling Rs.742,961,051 relating to 09 balances shown in the Cash Flow Statement and the balance sheet were observed. Explanations in that connection were not furnished. Even though changes totaling Rs.3,117,920 relating to 15 account balances had been made in the preparation of the amended trial balance, the supporting evidence and reconciliation statements relating thereto had not been furnished to audit. In addition, evidence in support and the reconciliation statements for the difference of Rs.1 million between the financial results shown in the amended financial statements and the financial results shown in the amended trial balance had not been furnished to audit.

- (f) According to (a), (b), (c), (d) and (e) above, the responsibility of the management for the designing, implementing and maintaining the accounting controls relevant to the preparation and fair presentation of financial statements had not been discharged.

#### **2.2.5 Accounts Receivable and Payable**

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The following observations are made.

- (a) The arrears of lease rent due as at 31 December 2010 from 198 institutions and individuals amounted Rs.124,551,893. An adequate course of action had not been taken to recover the money even by April 2012.
- (b) A building procured from a company, on rent basis as at the current rate of Rs.75,000 per mensem, had been rented out to another company under a sub-lease agreement on 05 March 2005 at a monthly rental of Rs.195,000. The monthly installments of Rs.75,000 payable to the lessor company had been paid regularly, while no action had been taken to recover the rent income due to the Establishment up to 31 December 2010 amounting to Rs.4,904,250. Even though the audit was informed that the amount relating to the year 2010 had been recovered, the detailed schedules in support of the recovery had not been furnished to audit up to date.
- (c) No recoveries whatsoever had been made up to date on account of the assets valued at Rs.126,156,746 handed over to the Lak Sathosa established at the Welisara Stores Complex.

## 2.2.6 Cash and Bank Balances

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The bank balance of the Current Account No. 1415160701 (Ledger No. 1545428) as shown in the balance sheet amounted to Rs.16,298,762 whereas according to the Bank Reconciliation Statement and the cash book that balance amounted to Rs.12,573,250. Even though the management informed that the difference of Rs.3,725,511 was due to an error in the computerized accounting system, how that difference was created was not explained to audit.

## 2.2.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-Compliance
(a) Section 13 (5)(b) of the Finance Act, No. 38 of 1971	The report in terms of Section 13(5)(b) to be furnished with the financial statements of the Establishment had not been presented to audit.
(b) Section 4 of the Co-operative Wholesale Establishment Act, No.47 of 1949 as amended by Section 3 of the Amendment Act No, 38 of 1966	When the Sathosa enters into an agreement by placing its official seal, it should be signed by the Chairman and a director named by the Board of Directors. Nevertheless 02 agreements entered into for the renting out of buildings to the Lanka Sathosa Company Limited had not been signed by the Chairman. Even though the management informed me by letter dated 24 July 2009, that action in terms of Section 3 of the Act No. 38 of 1966 will be taken in the future, there was no evidence that it had been so done even up to the date of this report. Even though the Chairman

informed the audit that the Board of Directors had approved the transactions relating to the 02 agreements after those were signed by the Director, the supporting documents were not furnished to audit.

(c) Public Enterprises Circular  
No. PED/12 of 02 June 2003

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(i) Section 5.1.2

The non-formal Corporate Plan for the year 2007 to 2010 not approved by the Board of Directors presented to audit on 09 December 2009 did not include the Strategic plans for the year 2010, targets to be achieved and the responsibilities of the management in clear and specific terms.

(ii) Section 5.1.3

Even though a Corporate Plan and an annual budget updated and approved by the Board of Directors of the Establishment should be furnished to the Auditor General 15 days before the commencement of each financial year, action had not been taken in compliance with that requirement in respect of the years 2010 to 2012.

(iii) Section 5.2.2 and 8.3.2  
and Paragraphs 1.1.6 (v)  
and 1.3 of Public  
Administration Circular  
No. 22/99 of 08 October  
1999 and Financial  
Regulation 1646

(i) Fuel allowance amounting to Rs.480,900 in the year under review and Rs.400,500 in the preceding year had been paid to 04 officers and 03 officers respectively of a "C" Level State Corporations who are not entitled to official motor vehicles. Even though the management informed that the procedure was continued as such fuel allowances had

been paid to the Executive Officers in the past, the promotions of the three Executive Officers referred to above had been made outside the approved Scheme of Recruitment.

- (ii) The officers who were not entitled to official motor vehicles had regularly used the pool motor vehicles as allocated motor vehicles without approval. As such obstructions had been caused to the day to day official duties of the Establishment, while the Daily Running Charts and Monthly Performance Summaries had not been furnished to audit.

- (d) Public Administration  
Circular No 13/2008 of 26  
June 2008  
Paragraph 03

Records on the Format in Annex 01 on official motor vehicles had not been furnished.

- (e) Paragraph 02 of the Public Administration Circular No.6/97 of 03 February 1997 and Section 12 of Chapter VII of the Establishments Code

A sum of Rs.213,832 had been paid as acting allowance to 03 officers during the year under review contrary to the above provisions.

- (f) Section 3.5 of the Procurement Manual and Section 2.14 of the Procurement Guidelines
- Action had not been taken in terms of the following provisions in the procurement of works and services valued at Rs.293,040 in connection with the supply of electricity to the air conditioners.
- Failure to follow the procurement methodology
  - Non-identification of a Procurement Committee
  - Failure to act on Technical Evaluations
- (g) Ministry Circular No. 8-1/1-73 of 01 November 2007
- Instead of maintaining the Daily Running Charts on Form General 268, a form introduced by the Sathosa which did not contain the information such as the cost of fuel at the end of the month, fuel efficiency, quantity of fuel in the tank, opening and closing quantity of fuel and the quantity of engine oil used, had been used for the maintenance of Daily Running Charts.
- (h) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- 
- (i) Financial Regulation 103
- The motor vehicles of the Establishment had met with accidents in 09 instances and a sum of Rs.85,085 had been spent on carrying out repairs in 05 of those instances and the management had informed the audit that the loss had been covered by insurance. Nevertheless, action in terms of Financial Regulation 103 had not been taken. As such there were difficulties in obtaining the

evidence relating to loss to motor vehicles and the settlement of the loss. No evidence thereon whatsoever was made available to audit.

(ii) Financial Regulation  
103(i)

Action in terms of the relevant provisions had not been taken on the losses. Out of the 12 conveyers purchased at a cost of Rs.5,097,455 the electric motors of 11 conveyers had been misplaced. Action had not been taken to determine the loss and recover from those responsible for the loss. The Chairman had informed the audit that despite conducting an investigation, the identification of the persons responsible could not be done practically as the responsible officers had left under the Voluntary Retirement Scheme.

(iii) Financial Regulation  
133

An Internal Audit had not been carried out by establishing an Internal Audit Unit.

(iv) Financial Regulations  
137, 138, 228 and  
245(1)

- (i) Two mobile telephones costing Rs.60,160 had been purchased for 02 officers contrary to the provisions and without calling for quotations.
- (ii) Even though the need for furnishing the copies of documents relating to the administration and structural changes of the Establishment to the Auditor General was pointed out to the management over a number of years, disregarding such requests action had not been taken to furnish to the Auditor General.

- (v) Financial Regulation  
225(4) The officers preparing and checking vouchers had not placed their initials on them.
- (vi) Financial Regulations  
245(1) and 257 The Certifying Officer had not certified the vouchers
- (vii) Financial Regulation  
261(3) Money adequate for payments should be available and for such purpose, the transactions in the cash book, should be totaled duly and the balance available should be ascertained. But action in terms of that provision had not been taken. The management informed that payments had made in the basis of the Bank balance.
- (viii) Financial Regulation  
264(1) (i) Acknowledgement for the receipts of a sum of Rs.196,782 paid had not been obtained in terms of the provisions.
- (ii) An acknowledgement for the receipts of a sum of Rs.181,026 paid for the procurement of works and services obtained from the supplier had not been attached to the payment voucher and uncertified photocopies of the acknowledgement had been furnished to audit.
- (ix) Financial Regulation  
272 (1) The payment vouchers had not been arranged according to the consecutive order and furnished to audit.

- (x) Financial Regulation  
272 (3)
- Even though all payment vouchers should be furnished to the Auditor General within 06 weeks after the end of the respective month, action had not been taken in accordance with the provisions.
- (xi) Financial Regulation 454
- A Registrar of Fixed Assets in Form General 44 had not been maintained. Even a Register of Fixed Assets in the form introduced by the Establishment had not been maintained even by 11 March 2011. As such it is not possible to rule out in audit that the assets of Establishment is facing a severe risk.
- (xii) Financial Regulations  
754 and 757 (1) (a)
- The Inventory Registers of the Rice Complex at Pannegamuwa had not been balanced in terms of the provisions.
- (xiii) Financial Regulation  
756
- The assets of the Stores Complex at Pannegamuwa had not been checked by appointing a Board of Survey.
- (xiv) Financial Regulation  
757(2)(a)
- The annual Board of Survey Reports had not been furnished to the Auditor General.
- (xv) Financial Regulation  
785(4)
- A Register of Motor Vehicles or separate files for each motor vehicle had not been maintained.

### **2.2.8 Lack of Evidence for Audit**

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The balances of 19 assets accounts totaling Rs.2,741,431,049 , the balances of 09 liabilities accounts totaling Rs.1,627,995,005 , the balance of 02 income accounts totaling Rs.372,231,466 , the balances of 22 expenditure accounts totaling Rs.358,581,020 and the balance of other accounts totaling Rs.381,812,395 all totaling Rs.5,482,050,935 , shown in the accounts could not be satisfactorily vouched / verified or accepted due to the unavailability of evidence. Adequate information had not been included in the replies furnished by the management.

## **3. Financial and Operating Review**

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### **3.1 Financial Review**

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#### **3.1.1 Financial Results**

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- (a) After taking into account the other income of the Establishment including the non-operating income for the year under review, the net profit amounted to Rs.2,300,113 as compared with the corresponding net profit of Rs.46,000,886 for the preceding year. Nevertheless, the results of the operating activities of the Establishment had been a net loss of Rs.184,325,627 as compared with the net loss of Rs.195,717,615 for the preceding year, thus indicating a decrease of Rs.11,391,988 in net loss. This position had been due to the increase of the trading profit resulting from an increase of 208 per cent in sales and the decrease of operating expenses by 3.2 per cent and the decrease of finance cost by a sum of Rs.2,840,131 in the year under review.

- (b) The net sales of the year under review, as compared with the preceding year indicated an increase of Rs.125,383,394 or 208 per cent. Even though the gross profit for the year as compared with the preceding year indicated an improvement, the gross loss ratio of 1.9 per cent in the year 2009 had converted to a gross profit ratio of 1.1 per cent.
- (c) The rent income indicated an improvement of 0.8 per cent and rent income of Rs.124.5 million could not be recovered.

### 3.1.2 Analytical Financial Review

A few significant Ratios according to the financial statements presented are given below.

	2010 -----	2009 -----
• Profitability Ratios -----		
- Gross Profit / (Loss)	1.1%	(1.9%)
- Operating Profit / (Loss)	(100%)	(330%)
- Net Profit / (Loss)	(207%)	(654%)
• Liquidity Ratios -----		
- Current	0.48:01	0:49:01
- Quick Assets	0.40:01	0:48:01
• Ratio of Operating Expenses to Sales	(90%)	288%

- (a) Even though the deterioration of the equity of the Establishment had decreased by 31 per cent in the year under review, it had been due to the write off debtors by a sum of Rs.542,164,547 and the increase of interest income from debentures by a sum of Rs.161,906,344.
- (b) The working capital of the Establishment had decreased by 21.26 per cent during the year under review due to the effect on the decrease of the current assets of the Establishment by 27.43 per cent.

As such the analysis of ratios revealed that the profitability and the liquidity of the Establishment had adversely affected the operating activities thereby indicating a severe uncertainty on the future going concern of the Establishment.

### **3.2 Operating Review**

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#### **3.2.1 Physical Performance**

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##### **Corporate Plan and Action Plan**

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- (a) The Corporate Plan prepared informally covering the years 2007 to 2010 without complying with the requirements set out in the Public Enterprises Circular PED/12 of 02 June 2003 had been furnished to audit on 09 December 2009. An incomplete Action Plan prepared without specifically determining the targets had also been furnished.
- (b) The Establishment did not have a Corporate Plan embodying the targets relating to the production of rice including the storage of paddy by the Rice Complex at Pannegamuwa. Even though a paddy store with storage capacity of 1,000,000 kilogrammes of paddy had been made available to the Paddy Marketing Board, no charges had been recovered. The Management had failed to utilize the resources with better efficiency and effectiveness.

- (c) The Paddy purchases during the year 2009 had been limited due to the failure of the management to implement the activities according to plans. The paddy purchases and the sale of stocks of rice had decreased in the year 2010 as well.
- (d) As a very weak and informal Action Plan had been prepared for the year 2010, the local purchases and the purchases to be made from the foreign market had not been identified. None of the expected targets of the Packing Division, the Transport Division and the Rice Processing Centres had been identified in the Action Plan.
- (e) According to the financial statements, the sales income for the year 2010 disclosed an increase of 208 per cent over that of the year 2009. Nevertheless, the Action Plan presented for the year 2010 indicated decreases of the expected sales income by 86.5 per cent and 31 per cent as compared with the years 2008 and 2009 respectively. As such the Establishment had acted outside the Action Plan.
- (f) According to the Action Plan, an income of Rs.168,784,500 had been expected from the purchase and sale of two trade commodities in the first three quarters of the year 2010. A gross profit of Rs.20,830,500 had been expected from those transactions. None of those targets had been achieved up to the end of December of the year 2010.
- (g) All purchases of the Establishment had been made from the local suppliers in the last quarter of the year 2010 and 10 varieties of goods valued at Rs.262,219,083 had been purchased outside the Action Plan.

The management informed that an Action Plan cannot be furnished due to financial difficulties and that the operating activities connected therewith as well cannot be planned.

### **3.2.2 Bid Security Loans Payable (People's Bank)**

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The People's Bank had provided bid security loan facilities to the Establishment on Treasury Securities for the import of rice and wheat flour in the years 2004 and 2005. Out of those loans, a sum of Rs.207,050,943 had been outstanding as at 31 December 2010. Even though the Management informed me by the reply letter dated 19 March 2009 that this position had arisen due to the lack of adequate profit with the Sathosa and that the Treasury had been made aware of this position, that amount remained unchanged up to the end of May 2011.

### **3.2.3 Management Inefficiencies**

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- (a) Action had been taken to handover Stores Complex No. 510 to the Lak Sathosa without physically separating and identifying the trading stores, other assets and the staff of the store remaining therein belonging to the Establishment and as such difficulties had arisen with regard to the specific identifications of the stores, assets and the staff belonging to the Establishment in the Stores Complex No. 510.
- (b) The selling price of rice sold and the quantities of rice sold had been determined at the discretion of Lak Sathosa.
- (c) Prior to the payment of gratuity and other allowances to the officers who had left the service in 2004 under the Voluntary Retirement Scheme, the present management had not adequately ensured that the money recoverable from them and the assets, deposits and registers in their custody had actually been handed over to the Establishment.
- (d) The Administration of the Establishment had issued the Administration Division Circular No. 27/2002 dated 21 June 2002 to retire the officers who reached the age of 55 years. Forty cases filed against the retirement under this basis, and on other matters had not been decided even up to the year 2009. No information whatsoever relating to these cases had been furnished to audit.

- (e) Compensation amounting to Rs.34,109,357 had been paid in accordance with the decisions on 170 cases relating to three preceding years. No information whatsoever relating to the number of cases filed against the Establishment in the year 2010 or the number of cases decided had been furnished to audit.
- (f) According to a case filed against the Establishment for the non-payment of lease rent in accordance with the lease agreement for the ground floor and the second floor of the premises Nos. 401 and 407 on Galle Road entered into on 01 January 1985, the Establishment had been ordered in the year 2006 to pay a sum of Rs.6,034,000 as compensation. Consequent to the non-payment of compensation as ordered, a prohibition order had been issued on 35 motor vehicles of the Establishment valued at Rs.12,275,000. Even though the Court had ordered the payment of Rs.15 million it was informed that settlement was reached with the party concerned on the payment of Rs.9 million. No information whatsoever had been furnished to audit up to 05 July 2012.
- (g) Formal agreements had not been entered into with the parties concerned in procuring buildings to run Budget Shops while the rents had not been determined by obtaining assessments from the Chief Government Valuer. Even though the audit was informed that there was no time to take formal action, as action had to be taken according to a decision of the Ministry, the decision of the Ministry had not been furnished to audit.
- (h) The Establishment had imported 140 rice processing machines costing Rs.14,501,998 in September 2006 on the instructions of the Ministry of Trade, Commerce, Consumer Affairs and Marketing Development and these 25 rice processing machines had been distributed to 25 farmers in the rice producing areas such as Polonnaruwa, Ampara, Anuradhapura etc. on loans granted by the People's Bank. These 25 machines had been recovered as the farmers did not agree with the loan conditions offered by

the People's Bank. Even though it was stated that money will be obtained by handing over the machines to a programme expected to be implemented by the Ministry of Co-operatives, only one machine had been sold and the balance 139 rice processing machines had been kept in storage in the Sathosa Store No. 510 without taking any effective action.

#### **3.2.4 Operating Inefficiencies**

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The following observations are made.

- (a) Twelve buildings of the Establishment had been rented out to the Lak Sathosa Company Ltd, a subsidiary of the Establishment and a valuation of the building rent had not been obtained from the Chief Government Valuer. Even though the Secretary to the Ministry had instructed the respective officers at the meeting of the Audit and Management Committee to take action after obtaining a correct assessment, the rectification had not been done up to 05 July 2012.
- (b) The rent receivable from the Lanka Sathosa Company Ltd. from 01 April 2006 to 31 December 2010 amounted to Rs.41,839,201. Even though the rent remained irrecoverable since the date of renting out on 01 April 2006 to 05 July 2012 up to date, the management had decided to handover the other stores which are being used by the Sathosa, for the storage purposes of the Lak Sathosa without charging money.
- (c) Even though an area about 6000 square feet of the building owned by the Establishment in which the Head Office of the Lak Sathosa Company Ltd is situated is used by that company, the rent had been computed only for an area of 2350 square feet. Action had not been taken for the recovery of rent for the additional accommodation even up to the end of the year 2010. Even though it was informed by letter dated 08 December 2011 that action was taken for the recovery, any confirmations in support of the recovery of money was not furnished to audit.

### 3.2.5 Idle and Underutilized Assets

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The following observations are made.

- (a) The Pannegamuwa Rice Complex with a plant valued at Rs.25,521,569, a stores complex with capacity for storage of 1,000,000 kilogrammes of paddy and a rice store with a capacity for 350,000 kilogrammes of rice had been idle and underutilized.
- (b) Employees of the Establishment had been voluntarily retired due to the transfer of the retail trade to the Sathosa Retail Ltd and decrease in the wholesale trade resulting from the restructure of the Establishment. Fixed assets costing Rs.682,063,488 were observed in audit as lying idle or underutilized since the year 2004 due to such limitations of business activities. Even though the management had, by letter dated 19 March 2009, replied me that appropriate action will be taken for the disposal of the idle assets, no evidence in support of rectification was not made available while documentary evidence in support had also not been furnished.
- (c) Out of the 11 companies commenced under the restructure of the Establishment, the Sathosa Retail Ltd. had terminated business activities with effect from June 2005 due to losses incurred. A judgment of the District Court, Colombo dated 23 October 2006 directed the dissolution of that Company. Further, the other 10 companies too exist only in names and as such the current assets valued at Rs.523,821,349 shown in the financial statements as receivable from those companies for the year 2009 had been written off in the accounts in the year 2010. The authority for the write off of those assets and the Journal Entries relating to the accounting had not been furnished to audit.

- (d) Out of the fleet of 104 motor vehicles as at the beginning of the year 2010, fifty eight motor vehicles valued at Rs.12,685,000 had been idling. Any confirmation as to whether 03 motor vehicles out of those valued at Rs.125,000 are remaining in the establishment or sold or disposed of had not been furnished to audit.
- (e) The Establishment had handed over assets valued at Rs.32,074,662 by 31 December 2007 to the Lanka Sathosa Company Ltd without a revaluation. No agreement had been reached either to obtain money or shares of the Company for such assets. In addition, records on the assets handed over in the year 2008 and 2009 had not been maintained and particulars thereon were not furnished to audit up to 05 July 2012. An incomplete register had been furnished to audit in December 2011.
- (f) Two rice mills of the Establishment costing Rs.85,110,614 had been idle / underutilized in the year 2010 and as such the labour of the relevant mills had also been idle and underutilized. The management informed the audit that this situation had arisen due to the credit purchase of paddy from the Paddy Marketing Board due to financial difficulties.

### 3.2.6 Restructuring Transactions

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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 had been issued to those commercial Banks for the payment of that amount in 13 years.

It had also 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 CWE to the Sathosa Retail Company Ltd. Accordingly, a sum of Rs.4,209,564,684 as the interest payable for 13 years on these Treasury Bonds and a sum of Rs.1,522,544,041 computed at the net present value of the Treasury Bonds discounted at 8.5 per cent had been brought to account.

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 it had been decided to dissolve the Establishment in accordance with the decisions of the Cabinet of Ministers No. 04/0103/136/007/EPC/710 dated 03 February 2004, it had been decided to stop the dissolution of the Establishment in accordance with the decision of the Cabinet of Ministers No.04/0892/012/011 dated 11 August 2004.

In addition, the payment of 50 per cent of half yearly interest with effect from, 14 May 2004 to the Commercial Banks as agreed at the restructure of the Establishment had been defaulted due to the non-receipt of rent income from the CWE Retail Company, and two of the Commercial Banks had filed cases in the District Court, Colombo for the recovery of interest. In accordance with the judgment of those cases, a sum of Rs.128,625,588 had been paid to the 2 Banks as the interest payable up to 14 May 2006. That amount was shown in the financial statements as a deduction from the long term liabilities.

Even though the amounts payable in connection with the Bonds issued by the Treasury under the restructure of the Establishment should have been paid to the General Treasury from the proceeds of the sale of properties of the Establishment by the PERC, such reimbursement had not been made. Due to the new decision of Cabinet of Ministers to operate the Establishment continuously after abrogating the earlier decision for closing down the Establishment, a sum of Rs.4,922,577,055 representing the value of Treasury Bonds payable to the Treasury amounting to Rs.4,397 million and the interest payable on that amount for 13 years and the present value of those loans discounted at 8.5 per cent

had been shown in the financial statements for the year 2009. Due to the receipt of Rs.1,133,344,338 from the Treasury as the contribution for the year 2009, an unidentified sum of Rs.50 and the Treasury Contribution of Rs.161,906,334 received in respect of the year, 2010 that amount had been reduced to Rs.3,627,326,333 as at 31 December 2010. The change in the Treasury Contribution had not been disclosed adequately in the financial statements.

### **3.2.7 Investments**

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The Establishment had invested a sum of Rs.181,852,400 comprising a sum of Rs.171,928,690 in one company and a sum of Rs.9,923,710 in another company in the year 1999. One company 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. The recovery of the investment therein is uncertain. No dividend whatsoever, had been received during the period 1999 to 2010 on the investments made in the other Company. Even though the management had, by letter dated 24 July 2009, informed me that appropriate action will be taken in the future to write off the investments, no action whatsoever had been taken even up to the end of the year 2010.

### **3.2.8 Motor Vehicle Utilisation**

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- (a) Out of the 104 motor vehicles in the Transport Division of the Establishment, 45 motor vehicles valued at Rs.11,673,000 had been parked unprotected and idling and 13 motor vehicles valued at Rs.1,012,000 had been idling since the year 2006.
- (b) Even though the posting of entries in the Daily Running Charts and Log Books had been done in highly improper manner and not recorded on the specified dates with proper supervision, the Establishment spent Rs.3,970,099 motor vehicles running expenses including travelling expenses and combined allowances in the year under review as well.

### 3.2.9 Build up of a Fund for Employees' Gratuity

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Even though an allocation of Rs.26,193,506 had been made by the end of the year 2010 in terms of the Payment of Gratuity Act, no. 12 of 1983 for employees retiring or leaving the service, a fund had not been built up to meet the future commitments for the payment of gratuity.

### 3.2.10 Idle Expenditure

---

Out of the rice milling expenditure of the Pannegamuwa Rice Complex amounting to Rs.4,190,916 , a sum of Rs.3,200,000 was observed in audit as expenditure incurred on idle time. The Chairman informed the audit that this position had arisen on the bases of mill operation depending on the quantity of paddy supplied by the Paddy Marketing Board.

### 3.2.11 Irregular Transactions

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Even though a gross profit of Rs.1,695,652 had been reflected from the sale of bakery products, according to the information received by the audit, the limits of the non-banking of the sales products not confirmed to audit ranged between Rs.236,880 to Rs.1,321,285 as shown below.

Amounts Banked according to the Cashiers Daily Sheets	Amount Banked according to Information of the Accounts Division	Amount Banked according to Bank Slips	Amount observed as not Banked
Rs.	Rs.	Rs.	Rs.
11,956,043	13,040,448	-	1,082,405
11,956,043	-	11,719,163	236,880
-	13,040,448	11,719,163	1,321,285

As such the bakery products purchase and sale had not been subjected to proper supervision. According to the reply No. CWE/GA/10/R-17 of 04 April 2011, audit was informed that the cash shortage amounted to Rs.496,706 and the necessary courses of action will be taken in the future. Nevertheless, the management had failed up to 05 July 2012 to furnish proper explanations to the cash shortage pointed out in audit.

### **3.2.12 Transactions Without Identified Market Targets**

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Whether the quantities of rice produced by the Pannegamuwa Rice Complex would be sold to the Lak Sathosa which is the main customer of the Sathosa had neither been identified nor estimated. Concurrence had not been reached with that institution with regard to the quantities to be purchased and the expected prices. Despite the demands at higher prices available in the market the Lak Sathosa had purchased 188,650 kilograms only. As such 339,900 kilograms out of the stock of 528,550 kilograms remained in the stores up to 17 December 2010, the date of audit inspection and it was pointed out in audit that the recoveries for the rice sold had also not been made up to 05 July 2012. The management had informed that recoveries are being made on installment basis. In addition, the course of action taken on the stock of 339,900 kilograms of rice lying in the stores had not been explained to audit.

### **3.2.13 Identified Losses and Damage**

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- (a) Due to the lack of a policy relating to the sale of rice to the Lak Sathosa, the rice in storage over several months had discolored and a stock of 7,550 kilograms of such rice which could have been sold at Rs.54 per kilogram under normal conditions had been sold at Rs.35 per kilogram. The financial loss thereon amounted to Rs.145,655 and cash had not been collected for the rice sold.

- (b) Even though broken rice could have been sold to a local buyer at Rs.19 per kilogram without incurring transport costs, such stock of rice had been transported to store No. 510 in Colombo and sold at Rs.13 per kilogram and that stock of 10,860 kilograms had been transported over a distance of 235 kilometers and delivered to the buyer by the Sathosa itself. The sale proceeds amounting to Rs.141,180 had not been received even by 05 July 2012. Thus the net loss to the Establishment amounted to Rs.65,140. Action had also not been taken to estimate or determine the transport cost and recover from the buyer.
- (c) Even though a local buyer quoted for the purchase of 16,500 kilograms of broken rice at Rs.24.50 per kilogram the management had not taken action to sell that stock of broken rice. The reasons for not selling had also not been explained to audit.
- (d) A stock of 246 containers valued at Rs.77,490 issued to a baker to dispatch bakery products to the Sathosa outlets for sale at the Settikulama relief village had not been returned to the Sathosa even up to 05 July 2012. Action had not been taken to identify those responsible and recover the loss.

#### **3.2.14 Supplies and Services**

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The Establishment had paid a sum of Rs.293,040 in the year under review to procure single phase and three phase electricity supply in an irregular manner.

#### **3.2.15 Related Party Transactions with State Companies**

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A physical inspection of the Store No. 510 carried out on 27 December 2010 revealed the existence of 197 metric tons of coriander and 42 metric tons of chick-peas belonging to the State Trading (Co-operative Wholesale) Company Ltd.

The Establishment had entered into an unproductive trading activity as a intervene Service Provider by spending a sum of Rs.12,454,923 to meet the expenditure on release of goods of the State Trading (Co-operative Wholesale) Company Ltd due to its financial difficulties and storage of goods of that company in the Sathosa stores without any apparent basis or authority instead of carrying out that as a trading transactions to the benefit of the Establishment.

### **3.2.16 Contribution of the Establishment to the National Economy**

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Even though the management had informed the audit from time to time that the inability of the Establishment to make the contribution expected of it to the national economy had been due to the practical difficulties confronted in carrying out its activities resulting from the financial constraints of the Establishment, the following matters confirm the position that the Sathosa is capable of performing its functions surpassing the role of the Government Companies who are at present performing the functions performed by the Sathosa previously.

- (a) The Sathosa has become an institution assisting Government Companies beset with financial difficulties. The expenditure incurred on the release of imported stocks by the State Trading (Co-operative Wholesale) Company Ltd can be cited as an example.
- (b) Grant of a loan of Rs.10 million in the year under review to the Building Materials Corporation Ltd on a request made by the Secretary to the Ministry to grant a loan of Rs.25 million.
- (c) The possibility of utilizing the underutilized equipment / assets of the Packing Division established with the target of supplying services to the Lak Sathosa Company for the purposes of the Sathosa itself.
- (d) The ability of the Establishment at present to meet the daily expenses without Treasury provisions.

- (e) Instead of maintaining a transport service to outside institutions including Lak Sathosa Company, reap benefits by promoting a transport service targeted to the main trading activities of the Sathosa itself.
- (f) The existence of a recoverable income of Rs.861,725,558.
- (g) Utilization of the large number of buildings, motor vehicles and plant or generate income by disposal.

As such it is not possible to be satisfied in audit with regard to the contention of the management that the Establishment is unable to achieve the targets of the Action Plan is due to the existing financial difficulties. The fact that the management itself had not contributed adequately to enable the Establishment to contribute to the betterment of the national economy cannot be ruled out in audit.

### **3.2.17 Contingent Liabilities and Transactions Without Appropriate Authority** **Acquisition of Assets**

The Establishment had procured 02 stores situated at Hingurakgoda at a monthly rental of Rs.11,000 per month in the year 1992 by entering into irregular agreement. Even though agreement had not been renewed, the use of the stores had been continued by agreeing to the payment of a monthly rental of Rs.50,000 from the year 1998. No rent had been paid up to the year 2011 and as such a contingent liability for rent amounting to Rs.9,192,000 was observed. Rice Mills had also been constructed in the premises at a cost of Rs.78,978,504 without authority. The contingent liability for rent had been omitted in the financial statements.

### **3.2.18 Appointments and Promotions**

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Despite the unavailability of an approved cadre and vacancies in posts, 03 promotions to the posts of Finance Manager, Senior Manager (Administration) and Additional General Manager and an appointment as Legal Officer had been made on a decision of the Board of Directors.

### **4. Systems and Controls**

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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) Planning
- (b) Organisation Chart
- (c) Physical Control
- (d) Performance
- (e) Debtors
- (f) Creditors
- (g) Fixed Assets
- (h) Internal Audit
- (i) Cadre
- (j) Bank Reconciliation
- (k) Stock Control
- (l) Rent Income
- (m) Motor Vehicles Control
- (n) Maintenance of Documents and Registers
- (o) Accounting
- (p) Response to Audit Queries
- (q) Petty Cash Control

H.A.S.Samaraweera

Auditor General

**REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS  
OF THE CO-OPERATIVE WHOLESALE ESTABLISHMENT  
FOR THE YEAR ENDED 31.12.2010 IN TERMS OF  
SECTION 14(2) (C) OF THE FINANCE ACT NO.38 OF 1971.**

Reference letter No. SC/E/CWE/FA/AMND/A/2010 dated 20<sup>th</sup> July 2012, we are submitting herewith our observations on the above report as follows :

**Chairman's comments**

**2.2 Comments on Financial Statement**

**2.2.1 Submission of Financial Statement :**

- (a) Submitted on 01<sup>st</sup> November, 11.  
(Ref. letter No.CWE/GA/2011/ R-AR-14)
- (b) The breakup of cost of sales was shown in the financial statements prior to 31.12.1998. Thereafter, the management has decided not to disclose the break-up of cost sales in published accounts, as if reveals secret information to our competitors. Thus in keeping with the past practice, we have not shown the break-up of the cost of sales in financial statements and this has not been queried by the Auditor in the past. The break up cost of sales annexed 01.

**2.2.2 Sri Lanka Accounting Standards :**

- (a) S.L.A.S 03 We have complied with Sri Lanka Accounting Standard 03 in regard to general accounting policies, assets and the basis of valuation, liabilities and provisions profit & losses. (Ref. page 5-6 and 18-19)
- (b) S.L.A.S 05 As in the preceding years and in keeping with the disclosure requirement stocks have been valued at purchase price or net realizable value whichever is lower.
- (c) S.L.A.S 09 & 18 (i) Profit on sale of fixed assets is Rs.30, 709,278/- (Ref. page 10) and same amount is shown in the cash flow statement at page 3.
- (ii) Motor vehicles have been revalued at market rates by independent valuers as at 31.12.2009 and 31.12.2010 and correspondence relevant to same submitted to audit. (Please refer reply sent on 2011.12.09 Ref. No. CWE/GA/ (F.A.10)/2011)

- (d) S.L.A.S 36
- (i) Legal expenses Rs.1, 393,797/- is shown as administrative expenses. (Ref. page 08) Vouchers available in support of this payment. Relevant details made available to audit on 21.11.2011.
- (ii) Dues to retired employees on account of Court cases is estimated at Rs.2.7 Mn and is disclosed at Page (18) of the financial statements as contingent liabilities.

**2.2.3 Overstatement and understatement in accounts :**

Noted to make appropriate adjustments in 2011.

**2.2.4 Un-reconciled Control Account :**

- (a) Furniture and equipments : Schedule balance did not reconcile with ledger account balance as at 31.12.2009.  
In 2010 we have made appropriate adjustments to agree the schedule balance with ledger account balance as at 31.12.2010. The present position is as follows :

	Balance as per schedule 01.01.2010 Rs. -----	Balance as per ledger account 01.01.2010 Rs. -----
Furniture & equipments	51,744,688/-	51,744,688/-
Accumulated depreciation	50,194,287/-	50,194,287/-

Thus, we have reconciled the ledger account balances with schedule balance.

- (b) Please refer reply sent on 01<sup>st</sup> Nov.11  
Ref. No.CWE/GA/2011/R-AR-14
- (c) Ref. reply sent on 31<sup>st</sup> October, 2011  
Ref. No. CWE/GA/2011/R-AR-17
- (d) Printing of ledger for 12 months transactions is very expensive and laborious task. However, arrangements have been made for printing of General Ledger 2010.

**Amended Financial Statements 2010**

(e)	Income statement	Total expenses as per financial statements re-submitted	165,319,509/-
		Total as per financial statements submitted on 25/02/2011.	<u>165,172,151/-</u>
		Difference	<u><u>147,358/-</u></u>

It is observed that the following expenses incurred as per petty cash imprest from Nos. 466508 and 466510 (Head Office) have not been accounted for before finalization of accounts submitted on 25<sup>th</sup> February, 2011.

	<u>A/C No.</u>	<u>Amount</u>
Travelling	6171	6,200.00
Casual wages	6109	64,283.00
Consumables stores	6272	14,600.00
Telephone	6241	8,440.00
News papers	6245	2,690.00
Electricity	6235	2,845.00
Postage	6233	994.50
Others	6274	<u>47,306.98</u>
		<u>147,359.48</u>

- (f) Not relevant. The correct position explained to the Audit. Ref. letter sent on 31<sup>st</sup> October, & 01<sup>st</sup> November, 2011.

**2.2.5 Accounts receivable and payables**

- (a) Appropriate action taken to write-off long outstanding rent. Follow up action taken to recover other dues.
- (b) Rent for the 12 months of 2010 has been recovered. The balance outstanding as at 31.12.2010 is Rs.1.7 Mn which relates to the period prior to 2008.
- (c) Reply sent on 2011.11.08.

### 2.2.6 Cash and Bank balances :

It is observed that Commercial Bank account balance and Saving A/C balance as per Trial balance & balance sheet is as follows :

Savings A/C (1545410)	38,341,308.18
Current A/C (1545428)	<u>16,298,762.49</u>
As per Balance Sheet (Page 15)	<u>54,640,070.67</u>

The balance as per Cash Book is as follows :

	Rs.
Savings A/C	38,341,308.18
Current A/C	<u>12,573,250.73</u>
	<u>50,914,558.91</u>

The difference Rs.3, 725,511.76 is a system error and we have taken the Trial Balance figure as correct. However, appropriate action will be taken to probe into this difference and inform the audit soon.

### 2.2.7 Non-compliance with rules, regulations and management decisions :

- (a) Para 13 (5) (B) of Finance Act No.38 of 1971
- We have complied with para 13 (5)(B) of Finance Act No. 38 of 1971 and submitted all supporting schedules and documents required by the Auditor General subsequently.
- (b) Para 4 of amended Act of the Co-operative Wholesale Establishment No. 47 of 1949 (Para 3 & No.38 of 1966 old Act)
- CWE, Chairman was also the Chairman of Lak Sathosa. Hence relevant agreements have been signed by a CWE Directors and transactions approved by the CWE board of Directors.

Re-Rent agreement with Lak  
sathosa not signed by CWE Chairman

CWE Chairman was also the Chairman of  
Lanka Sathosa at the time and he  
has signed the agreement as Lanka Sathosa  
chairman.

Action will be taken to rectify this position.

(c) Public Enterprises Circular No.  
PED 12 dated 02<sup>nd</sup> June, 2003

- (i) Section 5.1.2.
- (ii) Section 5.1.3.

Corporate Plan updated and  
submitted to Board on 23<sup>rd</sup> September, 2011  
Re-submitted on 2011.12.28.

- (iii) Para 5.2.2 & 8.3.2 of  
Public Administration  
Circular No. 22/99 dated  
08<sup>th</sup> October, 1999 (1.1.6)  
& Financial Regulations  
No.1646 & Para 1.3

(i) In the past CWE has provided fuel  
allowances to some executives and  
therefore, we have followed the same  
practice.

(ii) Vehicle running sheets are available  
at Transport division.

(d) Section 3 of Public Administration  
Circular No. 13/2008 dated 26<sup>th</sup> June,  
2008.

Re-format No. 1 not submitted  
As per relevant rules.

(e) Section 2 of Public Administration  
Circular No. 6/97 dated 03<sup>rd</sup>  
February, 1997 and  
Para vii  
Establishment Code.

Re-Acting allowances paid to  
Executives. (Rs.213,832/-)

Acting allowances was paid as per  
Establishment Code and approved by  
the Chairman.

- (f) Para 3.5 of Procurement Hand book  
& 2.14 Guidance Code

Ref. Letter No. CWE/GA/2011-R-10  
dated 08.11.2011.

Re-Electricity supply to Air-condition  
Machines.

- (g) Ministry Circular No.8-1/1/73 dated  
01<sup>st</sup> November, 2007

Format No.268 (general) not used  
as vehicle running record.

In the past CWE has laid down a  
specific procedure for use of  
vehicles and his procedure followed.

- (h) Financial Regulations of Socialist  
Democratic & Republic of Sri Lanka.

(i) F R 103

Ref. letter sent on 25<sup>th</sup> March, 2011  
(Letter No CWE/GA/2011/R-AR-2)

(ii) F R 103 (I)

Though inquiry was conducted into  
the missing equipments it was not  
practicable to ascertain the persons  
responsible for missing  
equipments. as relevant employees  
left on VRS.

(iii) F R 133

Arrangement will be made to  
establish and Internal Audit and  
presently an officer is given an  
assignment of audit functions.

(iv) F R 137, 138, 228  
245 (I)

(i) Ref. Letter sent on 04<sup>th</sup> July, 2011.  
Letter No.CWE/GA/2011/R-16

(v) F R 225 (4)

(ii) Noted to comply.

(vi) F R 245 (I) & 257

Instructions have already given to the  
staff to initial vouchers as evidence for  
preparation and checking vouchers.

Noted to comply.

- (vii) F R 261 (3)
- (viii) F R 264 (I)
- (ix) F R 272 (I)
- (x) F R 272 (3)
- (xi) F R 454
- (xii) F R 754 & F R 757 (I) (a)
- (xiii) F R 756
- (xiv) F R 757 (2) (a)
- (xv) F R 785 (4)

Before cheques are issued bank statement balance is checked for availability of funds to meet the expenditure. Relevant records will be maintained from 01<sup>st</sup> January. 2012.

- (i) Noted to obtain receipt.
- (ii) Ref. Letter sent on 2011.11.08. No.CWE/GA/2011-R-10

All vouchers seriously numbered & Submitted to audit subsequently.

Noted to comply.

There are fixed assets registers in Finance Division and arrangement will be made to update same.

Arrangements will be made to reconcile inventory records at Pannegamuwa Mill.

Noted to comply.

Noted to comply.

Noted to comply.

### **2.2.9 Lack of audit evidence**

(a) & (b)

Refer letter dated 31<sup>st</sup> October, 2011.  
& 01st November, 2011.  
(Ref No.CWE/GA/2011/R-AR-17  
& " " R-AR-14)

### **3.2 Review of operations**

#### **3.2.1 Corporate Plan and Action Plan**

- (a) Noted to comply with relevant PED 12 circular.
- (b) This is a management decision as the Pannegamuwa Stores belongs to Paddy Marketing Board.
- (c) Due to financial constraints we are unable to plan out purchasing required for milling, but as we cannot keep the mill idling, paddy is obtained from Paddy Marketing Board for milling and recover Rs.3/50 per kilo milled and rice production is sold to Lanka Sathosa.
- (d) - do -
- (e) Due to financial constraints specific plan for procuments cannot be prepared and due to same reason we cannot plan out other related operations.
- (f) & (g) This is due to financial constraints and inability to obtain bank facilities.
- (h) Due to scarcity and upward trend in market prices the Ministry has directed to purchase specific essential food items from the local market and State Trading (Co-operative Wholesale) Co. Ltd.

#### **3.2.2 Bid Security Loan payable to people's Bank – Rs.207, 050,943/-**

The Treasury has extended  
Guarantee period upto June, 2012.

### 3.2.3 Operational inefficiency

- (a) We have already indentified stocks and inventory items and raised debit notes for rent due.
- (b) We have already disposed of all balance items subject tender procedure.
- (c) This is a management decision.
- (d) As all relevant senior officers have left in 2004 the present management is unable to comment on this matter. However, it is observed that as per available records, dues to CWE on account of distress loans, credit purchases and surcharges were duly recovered against final dues & compensation.
- (e) Ref. letter no. CWE/GA/ (F.A.10)/2011 dated 2011.12.08  
  
Ref no.18 at Page 18 of accounts where it is stated that contingent liabilities on account of pending Court cases stand at Rs.3.8 Mn.
- (f) Relevant information submitted to audit on 2011.12.08
- (g) The court has issued a judgement for Rs.15 Mn.  
But we agreed to settle for Rs.9 Mn.
- (h) CWE premises have been rented out for budget shops as per a directive issued by the Ministry and there was no time to prepare agreements for same as it was required to be done immediately. Thus we had to comply with the Ministry directive deviating from the normal procedure.  
Rent recovered at market rates.
- (i) In the past we made several attempts to dispose of these machines with no success. However, we keep in touch with external institutions to explore the possibility to dispose of these machines.

### 3.2.4 Operational inefficiencies :

Observations:

- (a) Noted to comply.
- (b) Renting out of the CWE premises to Lak Sathosa is a management decision as CWE is required to provide infrastructure facilities to Lak Sathosa.  
Action taken to recover rent at Rs.1.7 Mn per month from April, 2011.
- (c) Action taken to compute the rent for the balance floor area.  
(Ref. letter No.CWE/GA/(F.A.10)/2011-2011.12.08

### 3.2.5 Under- utilized assets :

- (a) Depending on availability of funds required for this operations.  
Appropriate action will be taken in due course.
- (b) We have already rented out idle premises to Lak Sathosa and disposed of some old Lorries vans and cars.
- (c) In terms of Para 6.2 (d) of the Purchase Agreement dated 01<sup>st</sup> December, 2003, we have written-off Rs.381,412,591/- from the Current Account balance with Sathosa Retail Ltd.  
This entry has been effected by the Sathosa Retail Ltd., as at 31.03.2004.  
Relevant details made available...  
to the audit in reply to the audit query  
No.SC/E/CWE/FA/AQ/10/D/08 dated 12<sup>th</sup> September, 2011.
- (d) Out of 58 vehicles, 35 vehicles are seized by Court Order.  
Noted to inquire into the missing vehicles after a physical verification of vehicles is done on December, 2011.
- (e) This matter will be discussed with Lanka Sathosa and appropriate action will be taken in due course.  
Detailed schedules of assets transferred to Lanka Sathosa handed over to audit.

- (f) Due to financial constraints, paddy is obtained from Paddy Marketing Board on credit basis. Therefore, the operation of the Paddy mill is depending on the supply of paddy from Paddy Marketing Board.

**3.2.6 Restructuring transactions :**

A detailed report on debt restructuring has been submitted to the Treasury seeking advice in regard to future commitments. (A copy of letter no.CWE/FM/Tre/2011 dated 15<sup>th</sup> November, 2011. sent to audit.

**3.2.7 Investments :**

Noted to write-off in 2011.

**3.2.8 Vehicle utilization :**

- (a) This inclusive of 35 vehicles seized by Court Order. After this Case is settled in January, 2012 action will be taken to dispose of all vehicles.
- (b) -do-
- (c) The operation of Transport Department will be reviewed and appropriate instructions will be given to Transport Manager in this regard.

**3.2.9 Requirement for Gratuity Fund**

Appropriate action will be taken to in this regard in 2012.

**3.2.10 Uneconomic transactions**

The operations of mill depends on the supply of paddy from Paddy Marketing Board.

**3.2.11 Irregular transactions :**

We have already sent a reply to audit query No.SC/E/CWE/10/C/05 2010.12.13 in regard to cash deficit but as per records the deficit is only Rs.496,706/- (Reply No.CWE/GA/10/R-17-2011.04.04) Appropriate action will be taken in this regard.

**3.2.12 Rice sales targets for 2010 not projected**

Rice sold to Lak Sathosa is recovered on installment basis.

**3.2.13 Identified losses :**

- (a) Sale proceeds recovered from Lak Sathosa as per Board of Survey report.
- (b) Due to the absence of storage facilities at Pannegamuwa we have brought back that this stock to Colombo and sold to a private party.
- (c) We have disposed of stocks at the highest price offered.
- (d) We have deducted the value of plastic containers from the dues of bakery owners.

**3.2.14 Supply and Services**

Reply sent on 2011.11.08  
(Ref.No.CWE/GA/2011-R-10)

**3.2.15 Transactions with affiliatory  
Government Companies**

We have disposed of goods imported by State Trading (Co-operative Wholesale) Co.Ltd., and recovered expenses incurred by us.

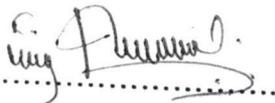
**3.2.17 Contingencies and Transactions with proper authority**

The premises belong to government and the mill was constructed in 1997/98 as directed by Her Excellency the President and no agreement was entered for payment of rent.

**3.2.18 Appointments and Promotions**

Ref. reply sent on 2011.11.03  
(Letter No.CWE/GA/2011-R-4)

Yours Faithfully,



Eraj T. Fernando

CHAIRMAN

CWE

Annexed 01

**COST OF SALES AS AT 31.12.2010**

Opening stock 01.01.2010	22,984,347
Purchases	261,431,495
LESS:-	284,415,842
Closing Stock 31.12.2010	103,588,084
	<b>180,827,758</b>