

Cooperative Development Fund -2019

1.1 Qualified Opinion

The audit of the financial statements of the Cooperative Development Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Audit Scope (Auditor's Responsibility in Auditing Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- Whether performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The audit observations with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under these headings.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Reccommendation
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(a) A statement of equity changes had not been submitted with the financial statements of the Fund in accordance with Paragraph 21 of Sri Lanka Public Sector Accounting Standard 1 and Accounting policies and detailed notes on Contributions, Revolving Fund and People's Bank assistance had not been submitted with the financial statements.	It is noted in the balance sheet analysis with regard to this and actions will be taken to present accounting policies and detailed notes from the current year.	Actions should be taken in terms of the Accounting Standard.
(b) The balance in the bank assistance account as at 31 December amounted to Rs. 306,498 for the preceding year had been transferred to the accumulated surplus during the year under review as per Sri Lanka Public Sector Accounting	It is noted to act in accordance with Sri Lanka Public Sector Accounting Standard 02 in the current year.	Actions should be taken in terms of the Accounting Standard.

Standards 2. Although this adjustment did not affect the cash flow statement, it had been stated as a cash outflow under the financial activity.

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| <p>(c) Although the non-current assets amounted to Rs. 5,481,300 had been completely depreciated due to failure to review the effective lifetime for non-current assets annually in accordance with the Paragraph 65 of Sri Lanka Public Sector Accounting Standards 07 , those were further being used by the Fund. Accordingly, actions hadnot been taken to revise the estimated error in accordance with Sri Lanka Public Sector Accounting Standards 03.</p> | <p>Actions will be taken to revalue the relevant assets after identifying them in accordance with the Sri Lanka Public Sector Accounting Standards 07 in future.</p> | <p>Actions should be taken in terms of the Accounting Standard.</p> |
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1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Although the contribution of Rs. 26,854,335 had been received in cash from the Co-operative Societies during the year under review, as a result of stating that as Rs.26,654,336 when taking that into the contributions receivable account, the contribution balance receivable as at 31 December 2019 had been overstated by Rs. 200,000.</p>	<p>Due to the mistakes occurred in entering a cheque No. 282329 amounted to Rs.200,000 received as contribution from Co-operative Marketing Association Limited in the schedule and actions will be taken to rectify this in the current year.</p>	<p>It should be properly taken into accounts.</p>
<p>(b) Although the contribution income for the year under review should be Rs.101,412,349, as a result it was mentioned as Rs.101,612,349 in the statement of income and expenditure, the surplus for the year had been overstated by Rs.200,000 .</p>	<p>Due to the mistakes occurred in entering a cheque No. 282329 amounted to Rs.200,000 received as contribution from Co-operative Marketing Association Limited in the schedule and actions will be taken to rectify this in the current year.</p>	<p>It should be properly taken into accounts.</p>

1.5.4 Lack of Evidence for Audit

Item	Amount Rs.	Audit Evidences Unavailable	Comments of the Management	Recommendation
Co-operative credits	47,164,884	Balance confirmations	Those balances are many years old loan balances and actions are being taken to obtain the balance confirmations after identifying the active societies.	Actions should be taken to obtain balance confirmations.
Granting of Loans -Uva Province	5,439,905	Balance confirmations		

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Actions had not been taken to recover the Co-operative school loan amounted to Rs. 2,666,000 descended from the year 1997, Performance Advances amounting to Rs.1,999,600 descended from the year 2012 and the court compensation amounting to Rs.1,184,000 stated under current assets as at 31 December in the year under review.	Actions will be taken to recover after finding out the loan and performance advance details given to Polgolla Co-operative College in the year 1997 . It has been decided to recover the amount of court compensation receivable amounting to Rs. 1,184,000 as 50 per cent from the officer and the remaining 50 per cent from the Government Account.	Actions should be taken to recover the loan balances.
(b) Out of the balance receivable amounted to Rs. 34,303,931 as at 01 January 2019 from the loan amount given to 59 Co-operative Societies from the Co-operative Development Fund, any loan installment had not been recovered in the year under review. These loan balances had remained ranging from a period from 07 years to 55 years.	The Provincial Commissioners have been made aware of continuously at the Provincial Commissioners' Conferences for the loan balances receivable from these Provinces. Further, since most of these debt balances are around 20 years old, it has been difficult to find details. However, steps are being taken to recover these loan balances at the provincial level promptly.	Actions should be taken to recover the loan balances.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Presidential Secretariat Circulars No. PS/SP/SB/21/2018 dated 07 December 2018 and No. SP/SB/ 07/15 dated 25 September 2015	A total of Rs.3,435,114 had been paid from the Fund for conducting two programmes in 02 hotels to pave the way forward the cooperative movement.	The coordination of the activities required to conduct the first workshop in this series of programmes has been entrusted to the National Co-operative Board and the selection of institution has been done by the National Co-operative Board. The selection of institution where the second workshop was held has been carried out by the Department and as the Laya Leisure is an institution maintained by the government security forces, selection of that place has happened.	Actions should be taken in accordance with the Circulars.

2 Financial Review

2.1 Financial Results

As per the financial statements presented, the operating result for the year under review was a surplus of Rs. 92,070,503 and the corresponding surplus for the preceding year was Rs. 19,742,511 thus indicating a growth of Rs.72,327,992 in the financial results of the year under review as compared to the preceding year. Increase of the contribution income by Rs.74,599,170 had mainly attributed for this growth.

3. Operating Review

3.1 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) All registered Co-operative Societies are required to contribute not exceeding 10 per cent and not less than Rs.5 to the Fund as contributions of their annual net profit in accordance with Section 43 of the Co-operative Rules published in Gazette Notification No. 93/5 of 10 January 1974. It had been stated that the those funds could be used for co-operative education, expanding and publicity work, improvement of management efficiency of co-operative societies and to be assisted to co-operative societies. The contribution of the co-operative societies to the Fund during the year under review was Rs.101,412,349 and the total expenditure of the Fund was Rs.32,812,987. Although a sum of Rs. 15,582,638 had been incurred out of this expenditure on co-operative education, expansion and publicity, 82 per cent or Rs. 12,836,589 from this had been spent on catering expenses, travel expenses, overtime and other expenses of the Co-operative Day Festival and the Co-operative Movement Program.</p>	<p>The International Cooperative Day Festival is celebrated every year on 2nd Saturday in the month of July by all the co-operators. As the Department of Co-operative Development is the hub of all Co-operative Institutions, it is more responsible to celebrate this festival at the national level to Department of Co-operative Development. Further, the co-operative education, expansion and publicity work have been stated as the main objectives of the Fund in accordance with Section 43 (i) of the Rules of the Co-operative Societies Act No. 05 of 1972. Accordingly, steps will be taken to control expenditure in future as indicated by the audit.</p>	<p>The money in the Co-operative Fund should be utilized for the development of the Co-operative Sector.</p>
<p>(b) Only a sum of Rs. 3,192,427, or 10 per cent of the total expenditure of the Fund had been spent to improve management efficiency of the Co-operative Societies and to assist Co-operative Societies during the year under review.</p>	<p>The contribution of Co-operative Fund has been granted only to the Co-operative Societies which have properly identified the requirements for improving the efficiency of the Co-operative Societies.</p>	<p>The money in the Co-operative Fund should be used for the development of the co-operative sector.</p>

- (c) Out of the balance of contribution receivable amounted to , Rs.138,529,076 as at 31December of the year under review, the balance for more than 05 years of Rs.18,405,066, and the balance due in between 01 to 05 years was Rs.119,924,008 as well. Out of 13 Co-operative Societies thereof it had not received any contribution from the year 2015 up to the year under review and a total of Rs. 28,453,875 were in receivable from those societies as at 31 December of the year under review.
- Agreed. Actions are being taken to collect the contributions recoverable promptly on the released audit reports and arrangements are being made to recover the arrears as well in instalments or expeditiously in the year under review.
- Arrangements should be made to complete the audits of the Co-operative Societies and to collect the contributions on time.
- (d) Out of the contribution balance receivable amounted to Rs.99,388,429 that is, a high percentage such as 71 percent should be received from the Education Employees' Co-operative Society Limited and there was a sum of Rs. 2,370,319 receivable from the Sri Lanka Consumer Co-operative Society. The Co-operative Societies should be audited by the Registrar of Co-operative Societies in terms of Section 44 (1) of the Co-operative Societies Act No. 05 of 1972 and the last audits of the Education Employees' Co-operative Society Ltd. and the Sri Lanka Consumer Co-operative Society Ltd. Had been conducted in the years 2014 and 2011 respectively.
- A sum of Rs. 500,000.00 per each is being paid for the arrears of contribution the Education Employees Co-operative Society Limited and actions are being taken to recover the contribution for audit reports currently released at present .The audit for the year 2015 has been completed and the audit report has been released to the Society by the 2nd quarter of the year 2020.The audit for the year 2016 has been completed by the 3rd quarter.This report is being finalized and has not yet been submitted to the Department.Similarly, the audit for the year 2017 is being done and the relevant accounts for the years 2018 and 2019 have not been submitted. The audit report of the Consumer Co-operative Societies Association Limited for the year 2012 has been released to the Society.The Department had received the audit report relating to the
- Arrangements should be made to complete the audits of the co-operative societies and collect the contributions on time.

year 2013 and the audit for the year 2014 is being completed. Although the accounts have been submitted for the years 2015, 2016, 2017 and 2018, it is confirmed that aforesaid accounts are not accurate and actions had not been taken to deploy auditors until the prior audits are completed.

- (e) A sum of Rs. 28,000,000 had been provided to the Mannar District Secretary for the implementation of projects to rebuild war-damaged Co-operative Societies in the year 2015. Although a sum of Rs. 18,000,000 had been remitted to the Department in the years 2016 and 2017 the money had been remitted to the Ministry in the year under review.

This matter was discussed at the Audit Management Committee held at the Ministry on 28.08.2019 and as determined therein, it was decided to reimburse the amount of Rs. 18,000,000.00 retained in the Fund to the Ministry again. Actions has been taken accordingly.

Funds received from the Ministry should be utilized within the stipulated time for the relevant purpose.