

## **Cooperative Development Fund - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Cooperative Development Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in equity 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 2021, 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**

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I express a qualified opinion 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**

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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 Sub-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 of the Fund.

## 1.4 Auditor's Responsibility for Auditing the Financial Statements

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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 scepticism 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 was obtained 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 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 the Fund has performed according to its powers, functions and duties and resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit Observations on the Preparation of Financial Statements

### 1.5.1 Internal Control over the Preparation of Financial Statements

The Centre is 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.

### 1.5.2 Accounting Deficiencies

	<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendations</b>
(a)	Since Rs.772,225 had been brought to account in the other expenditure account as correction for omission of office package worth Rs. 772,225 received donations in the year 2017, assets and donations of Rs. 772,225 had been understated.	Action will be taken to correct it by the accounts for the year 2022.	Accounting should be done identifying the correct account to be posted.
(b)	As the recovery of loan amounting to Rs. 200,000 of the Revolving Fund for the year under review had been brought to account as the income of the year, the Revolving Fund and the surplus of the year had been respectively understated and overstated by Rs.200,000 in the accounts.	The Rs. 200,000 has been brought to account under other receipts. Action will be taken to correct this in the current year.	-Do -

### 1.5.3 Lack of Documentary Evidence for Audit

The following observations are made.

Item	Amount	Evidence not furnished	Comment of the Management	Recommendation
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	Rs.			
(a) Cooperative Societies Loans	47,164,884	Balance confirmations	The societies have been informed to submit balance confirmations. Thus far, no balance confirmations have been submitted.	Action should be taken to obtain balance confirmations.
(b) Unsettled advances.	45,525	Balance confirmations	That it has not been able to submit balance confirmations due to the difficulties found in ascertaining information in this regard.	-Do-
(c) Other Current Assets.	20,000	Balance confirmations	That it has not been able to submit balance confirmations due to the difficulties found in ascertaining information in this regard.	-Do-
(d) Grant of loans- Uwa Province	5,439,905	Balance confirmations	That it has not been able to submit balance confirmations due to the difficulties found in ascertaining information in this regard.	-Do-
(e) Difference of the opening balance of the receivable contributions.	4,782,545	Evidence relating to the difference of opening balances.	Written evidence will be submitted by the Annexures 2,3 and 4	Evidence relating to the difference should be furnished.

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

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Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Management	Recommendation
Financial Regulation 877 (1) (c) included by Paragraph 15.1 of the State Finance Circular No.01/2020 dated 28 August 2020	A copy of the budget of the Fund for the year under review had not been forwarded to the Director General of Public Finance by obtaining relevant approvals in terms of circular.	The approval of the General Treasury has not been duly obtained for the budget for the year 2022.	Action should be taken to adhere to the provisions of the budget in the preparation of budget.

## 2. Financial Review

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### 2.1 Financial Results

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The operations of the Fund for the year under review had resulted in a surplus of Rs. 68,573,375 as compared with the corresponding surplus of Rs. 137,166,920 for the preceding year. Accordingly, a deterioration of Rs. 68,593,545 was observed in the financial result. This deterioration was mainly due to decrease in the contribution income by Rs. 53,966,088, sundry income by Rs. 2,567,289 and investment interest income by Rs. 2,336,322 as well as increase in the expenditure on cooperative functions by Rs. 3,839,625 and the cooperative societies development expenses by Rs. 8,618,370.

## 3. Operating Review

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### 3.1 Operating Inefficiencies

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The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) Loans of the Cooperative Societies		
(i) An outstanding loan balance of Rs.34,303,931 comprising Rs.31,287,451 related to 54 inactive societies and Rs. 3,016,480 related to two active societies and interest of Rs. 8,048,998 remained recoverable as at 31 December 2021. Any instalment or interest had not been recovered during the year under review and that loan and interest remained unrecovered	A programme is being implemented to recover these loans by coordinating all Provinces. At present, the loan recovery activities are being carried out by obtaining details on the loans through the provincial officers.	Action should be taken to recover the loans and interests by implementing an appropriate method to recover the loan expeditiously.

within a period ranging from 09 years to 57 years. Out of the loan of Rs. 8,450,900 given to 20 societies, any instalment had not been recovered. Further, 11 societies identified as inactive societies had been identified as active societies during the year under review.

(ii) Even though the loan amounting to Rs. 3,000,000 that had been stated as active loan and provided to the Kobeigane Multi Service Co-operative Society in the year 2012 should have been settled in 54 instalments, only one instalment had been paid in the year 2013.

That the officers of this society were summoned on 30.11.2021 and discussed the matter, further; this society has been informed on the recovery of this loan through the Secretary to the State Ministry and the Commissioner of the North Western Province.

Action should be taken to recover the loans in terms of agreements.

**(b) Revolving Fund**

(i) Of the loan amounting to Rs. 20 million provided by the Fund to the North Central Province Cooperative Societies in the year 2011, any amount had not been recovered after the year 2018 and a sum of Rs. 13,226,500 remained recoverable as at 31 December of the year under review.

There was an outstanding balance of Rs. 5,926,500 only from the North Central province as at 31.12.2021.

Action should be taken to recover the loan balances.

(ii) In the year 2011, the Fund had given Rs. 152.5 million to the Cooperative Wholesale Establishment and a sum of Rs.60 million had been recovered in the year 2012 alone. The loan balance that further remained recoverable as at 31 December 2021 was Rs.92.5 million.

The Secretary to the State Ministry has informed the Cooperative Wholesale Establishment in this regard, whereas no favourable response has been given in this connection.

Action should be taken to recover the loan balances.

(c) No action had been taken to recover the Cooperative Schools loan of Rs. 2,666,000 continued to exist from the year 1997 and the performance advances of Rs. 1,838,512 continued to exist from the period before 2012 that had been shown under the non-current

Due to the difficulties found in ascertaining details regarding the Cooperative Schools, settlement has been delayed; out of the performance advance given in the year 2021, a sum of Rs.

Action should be taken to recover the loan balances without delay.

assets as at 31 December of the year under review. 161,088 has been settled in the year 2021 and action is being taken to recover the remaining amount.

- (d) The balance of the contribution receivable as at 31 December 2021 was Rs. 174,682,949, of which sums totalling Rs. 129,149,591 or higher percentage of 74 per cent comprising Rs. 98,319,008 and Rs. 30,830,583 was due from the Education Employees Co-operative Thrift and Credit Society Limited and Pubic Service Co-operative Credit and Thrift Society. The balance that remained without receiving any contribution from 12 societies from the year 2015 in the above balance was Rs.36,154,050.
- The Pubic Service Co-operative Credit and Thrift Society Ltd. and the Education Employees Cooperative Thrift and Credit Society Limited pay the arrears monthly, Steel Industries Co-operative Society Ltd. and Sanasa Institutional Co-operative Society have become inoperative and the Human Resources Developmen Bank Society Ltd. has been liquidated, and other cooperative societies have agreed to pay the dues in the future.
- Action should be taken to recover the due balances without delay.

### 3.2 Operating Inefficiencies

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The following observations are made

Audit Observation	Comment of the Management	Recommendation
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(a) In terms of Section 43 of Cooperative Rules published in the Gazette No.93/5 dated 10 January 1974, it had been stated that every registered cooperative society should pay a part of its annual net profit to the Cooperative Fund as contributions, and that the cooperative education, extension and promotional programmes, improvement of management efficiencies of the cooperative societies and assisting the cooperative societies had been stated as the activities for which the funds of the Cooperative Fund could be	This funds have been used for the provision of transport, accommodations and foods to the team of selected experts of the National Cooperative Development Institute in their involvement in the field visit and to assist the production cooperative societies to meet their expenses, where necessary.	Action should be taken in accordance with the Gazette.

invested. Accordingly, the contribution of the cooperative societies to the Fund was Rs. 71,746,714 during the year under review and total expenditure was Rs.18,185,959. Out of the expenditure, a sum of Rs. 5,000,000 had been paid to the recruitment of advisors of the National Cooperative Development Institute and it was not cleared to the audit as to how it was contributed to enhance the cooperative societies.

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| (b) | According to the Action Plan of the year 2021, plans had been drawn to obtain 100 financial statements and subsequently, it had been revised as 69 financial statements. Only 55 financial statements including the financial statements of the preceding years had been submitted by 39 societies.   | Although it had been planned to obtain 69 financial statements by the amended Action Plan,2021, only 55 financial statements had been received.  | Action should be taken to discharge the functions included in the Action Plan.             |
| (c) | In terms of Section 43 a (2) of the Cooperative Societies (Amendment) Act, No.32 of 1983, the every registered society should prepare an annual statement regarding the accounts and figures related to the affairs of the society and those accounts statements should be forwarded to the Registrar or another person authorized by him within three months from the expiry of the relevant financial year. Nevertheless, 60 financial statements had not been submitted by 36 cooperative societies by the end of the year under review. Accordingly, financial statements had not been submitted by 02, 08, 14 and 36 societies for the year 2017, 2018,2019 and 2020 respectively. | Since the country was shut down and societies became dysfunctional due to Corona epidemic situation cropped up in the years 2020 and 2021, a delay was caused in the submission of financial statements. | Action should be taken to obtain financial statements in terms of Cooperative Society Act. |



- (d) Although plans had been drawn to audit 114 financial statements as per the Audit Plan for the year 2021, having completed auditing, the audit reports had been issued only for 43 financial statements as at 31 December 2021. Out of the 43 audit reports issued, 24 were the financial statements relating to the preceding years. Accordingly, audit activities of 36 out of the 55 financial statements submitted had not been completed and issued audit reports. Further, although the average duration given to audit a single society ranges from 05 days to 30 days, a duration ranging from 42 days to 436 days had been taken to issue audit reports from the date of assignment of the audit.
- Except for 12 societies, audit reports have been issued for other societies.
- Action should be taken in accordance with the Audit Plan.