

Co-operative Surplus Fund - 2014

The audit of financial statements of the Co-operative Surplus Fund of the Department of Co-operative Development for the year ended 31 December 2014, comprising the balance sheet as at 31 December 2014 and the income and expenditure statement and cash flow statement for the year then ended and the summary of significant accounting policies and other explanatory information, 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. My comments and observations which I consider should be published with the Annual Report of the Fund appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Co-operative Surplus Fund as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

Sri Lanka Public Sector Accounting Standard 02

- (i) Even though fixed assets costing Rs.1,005,124 purchased in the year under review should be shown in the cash flow statement under investment activities, they had been shown under operating activities.
- (ii) Settlement of fixed deposits guarantee loans amounting to Rs.298,171,210 which should be shown under financial activities, had been shown under operating activities.
- (iii) Even though the investments on fixed deposits in the year under review amounted to Rs.200,000,000, it had been shown as a cash outflow of Rs.151,627,662 in the cash flow statement.
- (iv) Even though Treasury Bills had not been purchased in the year under review, a purchase of Treasury Bills valued at Rs.6,861,658 had been shown in the cash flow statement under investment activities.

2.2.2 Accounting Deficiencies

Action had not been taken to forecast the useful life time of computer software costing Rs.189,001 shown under Intangible Assets in the balance sheet and to depreciate them annually.

2.2.3 Unexplained Differences

According to the financial statements presented, the balances relating to 3 Items of Accounts totalled Rs.564,202,779. However, according to the Schedule, that total amounted to Rs.655,433,222 thus indicating a difference of Rs.91,230,443.

2.2.4 Suspense Accounts

Action had not been taken to settle the balance of the Suspense Account amounting to Rs.9,475,735 shown under Current Liabilities in the balance sheet.

2.2.5 Lack of Evidence for Audit

Letters of Confirmation of Balances and Detailed Schedules in respect of balances of co-operative society loans and project loans amounting to Rs.542,377,482 had not been made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken even by the end of the year under review to settle dishonoured cheques valued at Rs.1,716,566 brought forward from the year 1999.
- (b) Even though a balance of 05 liability accounts totalling Rs.1,020,235 had been brought forward in the financial statements from many preceding years, those balances had not been settled even by the end of the year under review.

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

The following non compliances were observed.

Reference to Laws, Rules, Regulations etc.,	Non -compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

Financial Regulation 188 (2)	Action had not been taken in terms of Financial Regulations relating to unrealized deposits totalling Rs.73,804 exceeding 09 months.
(b) Public Finance Circular No.PF/423 dated 22 December 2006	

Paragraph 4.3	Even though the performance report for the year under review together with the statement showing the changes of the accumulated fund should be forwarded to the Auditor General with a copy to the Director General of Public Finance within 02 months of the closure of the financial year, action had not been taken accordingly.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had been a surplus of Rs.40,735,573 as compared with the corresponding surplus of Rs.27,722,806 for the preceding year thus observing an improvement of Rs.13,012,767 in the financial result. Even though the interest income of the year under review had decreased by Rs.60,910,456, the decrease in other expenditure by Rs.74,001,020 had attributed to this surplus.

An analysis of the financial results for the year under review and 04 preceding years revealed a financial surplus of Rs.67,946,692 in the year 2011 and it had continuously deteriorated up to the year 2013. As compared with the year 2013, it had improved by Rs.13,012,767 in the year 2014. In consideration of the employees' remuneration and depreciations for non-current assets, the contribution of the Institute for the year 2011 had been Rs.407,830 and it had continuously increased and in the year 2014 it had been Rs.996,036.

4. Operating Review

4.1 Performance

In terms of Section 44(iii) of the Co-operative Societies Rules published in the Gazette Notification No.93/5 of 10 January 1974, the manners of using the money of Co-operative Surplus Fund are as follows.

- (a) Purchase of shares of a primary co-operative society, to render assistance to such a society or in any other manner ordered by the Registrar.
- (b) To render assistance to a registered society for the purchase of fixed assets.
- (c) To render assistance to the liquidator for relief from civil cases instituted against him.
- (d) To render assistance to another institution established for purposes in assisting registered societies.

4.2 Management Activities

The following observations are made.

- (a) Out of the active loan balance of Rs.551,430,773 recoverable as at 01 January of the year under review from 35 co-operative societies, only a sum of Rs.110,510,946 had been recovered from 10 co-operative societies in the year under review. It represented 20 per cent of the total active loan balance.

- (b) According to the Dormant Loan Schedule, a sum of Rs.95,426,361 was recoverable as at 01 January of the year under review from 72 co-operative societies and only a loan value of Rs.306,503 had been recovered in the year under review. It was observed that these dormant loan balances had been the loans granted to co-operative societies during the period from the year 1989 to the year 2006.
- (c) Two fixed deposits totalling Rs.50,000,000 of the Co-operative Surplus Fund had been pledged as security for obtaining a Letter of Credit for Rs.40,000,000 from a state bank by a co-operative society in the year 2008. That society had defaulted the payment of the loan and as such, the bank had set off a sum of Rs.51,302,293 for the outstanding amount and the interest out of those two deposits in the year 2014.
- (d) Action had not been taken to recover even by 31 August 2016 a sum of Rs.5,000,000 granted as project loans to a co-operative society from the Surplus Fund in the year 2008.

(e) Loan granted to the Development Co-operative Society, Nikaweratiya

- (i) Even though a loan amounting to Rs.4,000,000 had been granted from the Surplus Fund in the year under review for providing funds necessary for a contract obtained by the Development Co-operative Society, Nikaweratiya, details relating to the interest charged on the loan, the period of settlement of the loan and the securities that should be pledged had not been included in the loan agreement.
- (ii) Even though it had been agreed to settle the loan by making a lump sum payment from the sum whichever is received first out of two instances of the income received after completion of the contract by the Society and the collection of money to the Fund, a sum of Rs.2,300,000 had been further recoverable by 31 December of the year under review.
- (f) Loans amounting to Rs.20,000,000 and Rs.25,000,000 had been granted from the Fund in the preceding year and the year under review respectively for the construction and modernization of the building of the auditorium of the National Co-operative Development Institute. Moreover, a formal agreement had not been entered into in respect of the loans granted out of those amounts in the year under review. However, a sum of Rs.25,000,000 was further recoverable from the Co-operative Development Institute even by 31 August 2016.

4.3 Underutilization of Funds

The balance of the bank current account of the Fund had been maintained above Rs.21,000,000 every month of the year under review and it had remained idle without being used for achieving the objectives of the Fund.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements of the year under review should be presented before 28 February 2015 in terms of paragraph 4.3 of Public Finance Circular No.PF 423 of 22 December 2006, the financial statements of the year under review had been presented on 09 March 2016.

6. Systems and Controls

Deficiencies in systems and controls revealed during the course of audit were brought to the notice of the Commissioner of Co-operative Development and the Registrar of Co-operative Societies from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observations

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| (a) Accounting | The preparation and approval of Journal entries had not been carried out properly. |
| (b) Control of operations | (i) Non-consideration towards investing surplus funds.

(ii) Failure in entering into agreements in granting of loans, weaknesses in recovery of loans and failure in carrying out follow up action on loans granted. |
| (c) Assets Control | Non-maintenance of Registers of Fixed Assets properly. |