

Co-operative Development Fund of the Department of Co-operative Development - 2015

The audit of financial statements of the Co-operative Development Fund of the Department of Co-operative Development for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 and the statement of income and expenditure, the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 the 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 the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 Development Fund as at 31 December 2015 and its financial performance and its 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

Even though the building costing Rs.350,000 had been fully depreciated due to failure in reviewing the useful life for the non-current assets annually in terms of Sri Lanka Public Sector Accounting Standard 07, it was still in use. Accordingly, action had not been taken to rectify the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Unexplained Differences

According to the financial statements presented, the total of 2 Items of Co-operative Society Loans and loan interest receivable amounted to Rs.31,688,811. However, according to schedules, that total amounted to Rs.55,279,605 thus indicating a difference of Rs.23,590,794.

2.2.3 Lack of Evidence for Audit

Loan files relating to Co-operative School Loans, Lorry Loans, Human Resource Cooperative Loans and Lorry Donations totalling Rs.54,828,396 and loans given relating to loans given to the Surplus Fund of the year 2013 and Loan Agreements had not been made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken since 7 years to recover the Performance Advances and Court compensations totalling Rs.3,183,600 shown under the current assets in the balance sheet as at 31 December of the year under review.
- (b) Action had not been taken to identify the debtors relating to the dishonoured cheques totalling Rs.2,411,653 shown under current assets since the year 2008 and to recover that money.
- (c) A sum of Rs.180,394 receivable from the Government Account which is being brought forward from the year 2012 had not been recovered 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	
(i) Financial Regulation 188(2)	Action had not been taken in terms of the Financial Regulations even by 30 September 2016 in respect of 02 cheques totalling Rs.300,000 deposited and remaining unrealized relating to the years 2011 and 2012.
(ii) Financial Regulation 396	Action had not been taken in terms of the Financial Regulations even by 31 December of the year under review in respect of 07 cheques lapsed from 6 months up to 05 years totalling Rs.54,964 issued but not presented to the bank relating to the years 2010, 2012, 2013 and 2015
(b) Treasury Circular No.842 dated 19 December 1978	A Register of Fixed Assets had not been maintained.
(c) Public Finance Circular No.423 of 22 December 2006	
(i) Section 4.1	The approval of the relevant Minister had not been obtained for the Annual Budget of the year under review and presented to the Director General of National Budget and the Director General of Public Finance.
(ii) Section 4.2	If a separate Bank Account and the books of the Fund are maintained, those accounts had not been regularly reconciled and the quarterly progress furnished to the Director General of Public Finance.
(iii) Section 4.3	A Statement of Changes in the Accumulated Fund for the year under review had not been presented to the Auditor General with a copy to the Director General of Public Finance within 02 months after the close of the year of accounts.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year ended 31 December 2015 had been a surplus of Rs.7,458,554 as against the deficit of Rs.11,998,614 for the preceding year thus indicating an improvement of Rs.19,457,168 in the financial result of the year under review as compared with the preceding year. Even though the income of the year under review had decreased by Rs.9,821,993, the decrease in other expenditure, foreign travel expenditure, publicity and sales expenditure and expenditure on aid by Rs.1,633,642, Rs.1,303,334, Rs.8,339,365 and Rs.18,414,346 respectively had been the main reason for the improvement in the financial result.

An analysis of the financial results of the year under review and the 04 preceding years revealed a financial deficit in the years 2011 and 2014 and a financial surplus in the years 2012, 2013 and 2015. However, taking into consideration the employees' remuneration and depreciation for non-current assets, the contribution had taken a negative value of Rs.155,473,139 and Rs.10,636,877 in the years 2011 and 2014 respectively and it had improved as a positive value of Rs.31,949,148, Rs.5,861,199 and Rs.8,899,693 in the years 2012, 2013 and 2015 respectively.

4. Operating Review

4.1 Performance

In terms of Section 43 of the Co-operative Rules published by the Gazette Notification No.93/5 of 10 January 1974, the monies of the Co-operative Fund can be utilized for Co-operative Education, Expansion and Publicity Activities, Improvement of Management Efficiencies of Co-operative Societies and assisting Co-operative Societies.

4.2 Operating Activities

The following observations are made.

- (a) Out of the loan amounting to Rs.3,000,000 granted in the year 2012 to the Multi Purposes Co-operative Society Ltd. of Kobeigane, a balance of Rs.2,983,090 and the outstanding interest of Rs.630,900 had not been recovered by 31 December of the year under review.
- (b) Out of the balance of dormant loans amounting to Rs.10,542,980 recoverable to the Fund as at 31 December of the year under review, only a sum of Rs.55,414 had been recovered in the year under review. Out of the loans totalling Rs.8,270,900 granted to 20 co-operative societies included in that dormant loan, no amount whatsoever had been recovered and necessary action had not been taken to recover those loan amounts.

4.3 Management Activities

The following observations are made.

- (a) An average balance of Rs.17,000,000 had been maintained in the Current Account during the year under review and action had not been taken to identify excess money and to invest that money so as to earn an interest income.
- (b) Action had not been taken to identify and settle 05 unidentified bank credit balances totalling Rs.141,522 existing since the years 2010, 2011 and 2012 even by 30 September 2016.
- (c) A sum of Rs.10,000,000 had been granted from the Revolving Fund to the Uva Provincial Commissioner of Co-operative Development for purchase and free distribution of potatoes among the Divi Neguma beneficiaries in the year 2014. Even though it had been intended to distribute the potatoes purchased out of that amount, 02 kilo grams each to all beneficiaries in the island, they had been distributed only among the Divi Negumaa beneficiaries of the North Western Province. Even though this money had been given on the agreement that existed between the Secretary to the Ministry of Co-operatives and Internal Trade and the Director General of the Department of Divi Neguma Development, there was no written agreement therefor. This money had not been reimbursed to the Fund up to 31 August 2016 and the Ministry of Economic Development had informed that those monies could not be reimbursed.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The financial statements for the year under review should be presented to audit within 02 months after the close of the year of accounts in terms of Section 4.3 of the Public Finance Circular No.PF 423 of 22 December 2006. However, the Department had presented the financial statements of the Fund only on 02 May 2016.

6. Systems and Controls

Deficiencies in systems and controls observed 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	Failure in updating subsidiary books
(b) Assets Control	Failure in conducting Boards of Survey as scheduled

(c) Financial Control

(i) Delay in the recovery of loans from co-operative societies and failure in proper follow up action

(ii) Non-investment of surplus money