

Co-operative Development Fund - 2016

The audit of financial statements of the Co-operative Development Fund of the Department of Co-operative Development for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 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 provision 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.

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 judgment, 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 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 Development Fund as at 31 December 2016 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 Lank Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) An inactive loan balances of general ledger was Rs.23,027,197 and cumulative value of inactive individual loan balances was Rs.47,255,334. Instead, of a difference of Rs.24,228,137 had not been corrected to the debt ledger, that difference had been adjusted to the loan ledger and accumulated fund during the year under review. Therefore, Co-operative society loans and accumulated fund had been overstated by that amount. Allocations for doubtful debts amounting Rs.6,057,071 in respect of adjusted inactive loan balances had been made during 2016, therefore allocations for doubtful had been overstated by that amount.
- (b) The subscription income of Rs.117,766 for the year 2011 and 2012 of Co- operative society of Prison Department Welfare Provident Fund and the subscription of Rs.233,630 for the year 2013 and 2014 of Sri Lanka Co-operative Sales Association Union had been recorded twice in the year under review, therefore subscription receivable and surplus had been overstated by Rs.351,396.

2.2.3 Unexplained Differences

The following observations are made.

- (a) A difference of Rs.599,213 was observed according to the general ledger loan interest receivable for Co-operative societies loan and the interest register presented along with the financial statements.

- (b) According to the subscription ledger and the schedule of subscription as at 31 December 2016, a difference of Rs.206,095 was observed from the amount receivable by thirteen Co-operative societies.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to recover a sum of Rs.2,666,000 of Co-operative School loan which is being brought forward from nineteen years and Rs.1,999,600 of Performance Advances and Rs.1,184,000 of court compensations which are being brought forward from eight years shown under the current assets as at 31 December of the year under review.
- (b) 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, no amount whatsoever had been recovered year under review. In terms of the loan agreement, the loan should have been repaid by monthly installment amounting Rs.55,556 of 54 installments a balance of Rs.2,983,090 and the outstanding interest of Rs.883,260 had remained unsettled even as at 31 December 2016, and action had not been taken to recover the balance loan by the fund.
- (c) A loan totalling Rs.31,392,901 receivable from 59 Co-operative societies remained unsettled for a period of 15 years to 53 years and only a Rs.70,000 had been received from a society during the year under review.
- (d) It was observed that a sum of Rs.52,042,838 receivable as subscription as at 31 December 2016 and out of that amount Rs.24,904,119 i.e. 48 per cent had to be recover from Education Employees Co-operative society Ltd before the year 2006.

2.4 Non- compliance with Laws, rules, Regulation and Management Decision

The following non compliance were observed.

Reference of Laws, Rules, Regulations etc.

Non - compliance

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| (a) | Financial Regulation of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 188(2) | Action had not been taken in terms of the Financial Regulation even by 31 August 2017 in respect Of 02 cheques totalling Rs.300,000 deposited and remaining unrealized relating to the years 2011 and 2012. |
| (b) | Public Finance Circular No.423 of 22 December 2006
(i) Section 4.1 | The Annual Budget of the year under review had not been presented to the Director General of National Budget and the Director General of Public Finance. |

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| (ii) | Section 4.2 | Bank Account and the books of the Fund regularly reconciled and the quarterly progress reports had not been 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. |

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 2016 had been a surplus of Rs.9,701,425 as compared with the corresponding surplus of Rs.7,458,554 for the preceding year, thus an improvement of Rs.2,242,871 was observed in the financial results of the year under review as compared with the preceding year. Even though the other expenses of the year under review had increased by Rs.7,528,624, the increase in subscription income by Rs.4,528,052, sundry income by Rs.3,390,254 and interest income on investments by Rs.1,548,403 had been the main reason for the above improvement in the financial result.

An analysis of the financial result of the year under review and the 04 preceding years revealed a financial deficit in the year 2014 and a financial surplus in the years 2012, 2013, 2015 and 2016. However, taking into consideration the employees' remuneration and depreciation for non-current assets, the contribution of Rs.21,962,534 of the year 2012 had been decreased to Rs.11,053,628 by the year 2016.

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 as follows.

- Co-operative Education, Expansion and Publicity Activities,
- Improvement of Management Efficiencies of Co-operative Societies
- Assisting Co-operative Societies.

The following observations are made.

- (a) Although one of the activity of the fund is awarding loan / grant to Co-operative societies, no amount had been awarded as loan / grant for the period of 2012 to 2016. The Commissioner of Co-operative Development had been mentioned as answers that there were no proper procedures had been identified to recover the loans therefore, suspend the issuing loans temporarily.

- (b) Even though, according to the action plan, the target to be collect subscription from 31 societies of the year under review, only Rs.4,869,469 had been collected from eight societies during the year 2016.

4.2 Management Activities

Action had not been taken to identify and settle 05 unidentified bank deposits totalling Rs.141,522 existing since the years 2010,2011 and 2012 even by 31 August 2017.

5. 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

(a) Accounting	Delay in updating subsidiary books.
(b) Recovery of loans	Delay in the recovery of loans from co-operative societies and failure in proper follow up action.
(c) Collecting subscriptions	Delay in audit of societies and collecting subscriptions from Co-operative societies.