

Co-operative Development Fund – 2017

The audit of the financial statements of the Co-operative Development Fund for the year ended 31 December 2017 comprising the balance sheet as at 31 December 2017 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 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 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 misstatement 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

requirement 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 misstatement 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 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 in 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 2017 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 Standard

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 01

- i. An equity changing statement had not been produced with financial statements of the fund according the section 21 of the standard and accounting policies and detail notices had not been produced regarding Circulating Fund, Peoples Bank Aids and General Deposit Fund.
- ii. Doubtful debts amounting Rs.6,132,446 had been included under other expenses showing without in surface in the financial statements according section 59 of the standard.
- iii. Current assets had not been arranged in Balance Sheet with liquidity order according section 70 of the standard.
- iv. Measurement basis had not been disclosed when preparation of the financial statements the equity value of property plant and equipment, rates of depreciation, investments and interest for investments in accordance with the section 132 of the standard.

(b) Sri Lanka Public Sector Accounting Standard 02

- (i) The cumulative surplus difference of Rs.298,261 which had no effect to the cash flows statement had been disclosed under the financial activities in the cash flow for the year under review.
- (ii) Investment interest received amounting Rs.11,205,187 had not been disclosed separately as investment cash flow according section 40 of the standard.
- (iii) Although the Fixed deposit investment by cash, year under review of Rs.64,500,000 had been shown out cash flow fixed deposit acquisition amounting to Rs.96,083,650 in the cash flow statement.

(c) **Sri Lanka Public Sector Accounting Standard 07**

Even though Eight number of non- current assets costing Rs. 4,755,627 had been fully depreciated due to failure in reviewing the useful life the non-current assets annually, it was further 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 Accounting Deficiencies

The following observations are made.

- (a) The funds received from State bank aids from 2011 to this year amounted to Rs.16,200,000 had been denoted as payable balance, which was not identified as an income for the same period, and was not disclosed in the financial statements.
- (b) Computer accessories equipment purchased from State bank aids amounting Rs.3,272,725 had not been included in computer assets account. Therefore the amount of the balance of Property , plant and equipments had been understated by that amount as at 31 December 2017.
- (c) Even though the training expense amounting to Rs..306,657 had been incurred from State Bank Aids that had not entered in income and expense account. Therefore, profit of the year had over-stated by that amount.

2.2.3 Unexplained differences

Total of the cash contribution schedule presented with financial statements as at 31 December 2017 had been under stated by Rs.915,717 than value of financial statements.

2.2.4 Lack of evidence for Audit

The following evidences had not been presented for audit

Item of Account -----	Value ----- Rs.	Evidence not presented -----
(a) Surplus of Agriculture Fund	14,503,854	} Balance confirmations
(b) Co-operative Society Loans	47,164,884	
(c) Unsettled Advances	45,525	
(d) Other Current Assets	20,000	
(e) Granting Loans Uva Province	5,439,905	

2.3 Accounts Receivable

Action had not been taken to recover a sum of Rs. 2,666,000 loan of Co-operative School that is being brought forward since the year 1997 and Rs.1,999,600 of Performance Advances and Rs 1,184,000 of court compensations which are being brought forward from the year 2012 shown under the current assets as at 31 December of the year review.

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

Following non-compliances were observed.

Reference Laws, Rules, Regulations Management Decisions 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 15 July 2018 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 ----- Section 4.2	Regularly compare the fund's accounts and books to the fund. The reports on each quarter progress of the fund had not been presented to the Director General of Public Finance
Section 4.3	Within two months after ending of the accounting year a statement of the changes of the cumulated fund had not been presented to the Auditor General with copy to the Director General of Public Finance.

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 2017 had been surplus of Rs.27,420,879 as compared with the corresponding surplus of Rs. 9,701,425 for the preceding year, thus an improvement of Rs.17,719,454 was observed in the financial results of the year under review as compared with the preceding year. Increasing of contribution income Rs.22,839.915 had been caused to the financial growth.

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 2013, 2015, 2016 and 2017. However, taking into consideration the employees' remuneration and depreciation the contribution of Rs.5,861,199 of the year 2013 had been increased to Rs. 20,535,476 by the year 2017.

4 Operational Review

4.1. Performance

4.1.1 Planning

In 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 had been stated that the functions of the Co-operative Society could be enhanced by improving the managerial efficiency of co-operative educational extension and co-operative cooperative societies as supportive of the Co-operative Society and assisting the co-operative societies.

The following observations are regarding in this connection.

- (a) According the Action Plan prepared for the year under review had been given Rs.20 million loan / grants to the Co-operative Societies however any loan / grant had not been given after the year 2012.

- (b) Co-operative day celebration Rs.4,985,681 ,department officers 'foreign training expenses of Rs.4,518,656 had been spent without expensing above activities.

4.2 Management Activities

Annual average balance of the current account for the year under review was Rs.9,178,067 and excess of money had not been invested after forecasting average monthly expense.

4.3 Operating Inefficiencies

The following observations are made.

- (a) Out of loan amounting to Rs.3,000,000 granted in the year 2012 to the Multy Purpose Co-operative Society Ltd of Kobeigane loan balance of Rs. 2,983,090 and arrears interest of Rs.1,173,332 had not been charged as at the date of 31 December of the year under review. According to the loan agreement loan must be charged Rs.55,556 monthly instalment by 54 instalments. Although Department had not been taken adequate action for it.

- (b) The receivable loan balanc of Rs. 34,303,931, which is 59 co-operative societies, was not due from 15 years to 53 years and in that idle loan Balance, only a sum of Rs.35,449 had been received of a single co-operative society during the year under review.

- (c) As at 31 December 2017, the contribution of due amount of Rs. 63,418,814 was Rs. 36,499,383 or more than 57.6 per cent had to be charged from Education Employees Co-operative Society Ltd. It should be noted that according to the contribution ledger the audit should have been received from the reserved contribution in relation to the items carried out in the previous years of the year 2006. Cooperative societies had to be audited by the registrar of Co-operative Societies in terms of Section 44 (1) of the Co-operative Society Act No. 05 of 1972. However, this society had been carried out last audit in the year 2012.
- (d) There were 21 co-operative societies in the year under review and no contributions have been received during the year under review and contributions of Rs. 12,151,415 from these societies had be received as at 31 December 2017.
- (e) Rs. 4,518,656 had been spent on 10 foreign workshops in respect of 19 officers during the year under review in violation of the objectives of the Fund. At the workshops, only 11 officers had submitted reports on the knowledge and experience acquired during their official duties.

4.4 Transactions of Contentions Nature

Rs 29,000,000 received from the Department of Co-operative Development from the Ministry of Industry and Commerce for the reconstruction of the Co-operative Societies affecting the war damages in the year 2015 at a cost of Rs. 28,000,000 for 04 projects and for the Northern Province Cooperative Development Commissioner Rs. 1,000,000 had been sent by the Department in 2016. The department did not follow up on proper implementation of these projects. Due to the failure to implement three projects to be implement in the Mannar District, Rs 2,000,000 in the year 2016 and Rs. 16,000,000 in the year under review, the District Secretary of Mannar returned the sum of Rs.18,000,000 to the Department had been retained as a liability of the fund without remitting to the Ministry even as at 31 August 2018.

5. System 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	Delay in updating subsidiary books and non preparing of journal vouchers.
(b) Financial Control	Delay in recovery of loans from Co-operative societies and failure in proper follow up action.
(c) Collecting of Subscriptions	Delay in audit of societies and collecting subscriptions from Co-operative societies.