

Head 301 - Report of the Auditor General on the Department of Co-operative Development – Year 2017

The Appropriation Account and the Reconciliation Statement under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No.32 of 2017 were presented to Audit by the Department of Co-operative Development. The financial and physical performance reflected by those accounts and the reconciliation statements were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Management and Accountability

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124 of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers have been appointed by the Minister of Finance to discharge the above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all the financial transactions of his Department in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions, Government Financial Regulations and Administrative Regulations.

1.3 Scope of Audit

The audit of the Department of Co-operative Development – Head 301 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers, records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Commissioner of the Department on 24 August 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports presented to Audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.4 Audit Observation

The audit observations of the Department of Co-operative Development for the year ended 31 December 2017 revealed in audit, appear in the Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of the audit observations included in the Management Audit Report appear in paragraph 2.1 to 2.10 of this report. It was observed that the accountability as the Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions of the Financial Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Accountability of the Accounting Officer in terms of Financial Regulation 128(1)	Non-compliance with that Provision by the Accounting Officer	Reference to the Paragraph of the report which included the Observation
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Financial Regulations		

128(1)(a) That the work of his department is planned and carried out with due despatch, having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorised, and that an endeavour is made to complete the programme of work laid down for the year and/or to attain the targets specified;	1. Failure in obtaining the expected output. 2. Failure in planning procurement activities in an adequate manner. 3. Shortcomings in internal audit.	2.2.2 2.3.1 2.8
128(1)(b) That the organization for financial control and accounting in his department is effective, and provides adequately for the correct ascertainment, where necessary, of dues to Government, the systematic, complete and prompt collection of dues, and bringing to account of monies received, the authorisation of commitments on behalf of the Government, the supervision and examination of services and supplies rendered, and the prompt and correct payment therefor from public funds;	Failure in performing functions included in the Action Plan.	2.2.1

128(1)(d)	That an adequate system of internal check for receipts, payments and issues is maintained and tested from time to time;	Deficiencies mentioned in the Advances to Public Officers Account	2.6
128(1)(e)	That adequate and proper arrangements are made for the safe custody and preservation of money, stores, equipment and other assets belonging to the Government, or is in its custody, and that these are verified from time to time; and, where they are disposed of, such disposal is according to prescribed Regulations and instructions;	Deficiencies in management of assets	2.9
128(1)(i)	That the activities of his department are undertaken with due regard to economy, efficiency, propriety and integrity expected in the transaction of public business;	1.Deficiencies in management 2.Deficiencies in human resources management	2.4 2.10
128(1)(m)	That an Appropriation Account is rendered to the Chief Accounting Officer at the end of the financial year in respect of each Programme of a Head of Expenditure for which he is responsible as Accounting Officer;	1. Excess provision 2.Deficiencies in General Deposit Account	2.5.1 2.7

2. Material and Significant Audit Observations

2.1 Key Functions of the Department

- (a) Registration of the inter provincial and all island cooperative societies and federations.
- (b) Performance of functions and the development related activities of registered cooperative societies /federations.
- (c) Steering the activities of the co-operative movement within the national policy by coordinating the provincial departments of cooperative Development
- (d) Giving assistance to national co-operative development processes.
- (e) Providing the constructive contribution through the cooperative movement for implementation of state development policies.

2.2 Performance

2.2.1 Non-performance of Functions included in the Action Plan

According to the Action Plan of the year under review, a project of establishment of co-operative villages had been planned to be commenced and annual provisions amounting to Rs.10 million had been made therefor with a view to promoting the publicity of the co-operative movement. However, the said project had not been implemented.

2.2.2 Failure in achieving the expected Output

Instances of failure in achieving the expected output by performing functions indicated in the Annual Action Plan, were observed. Details appear below.

- (a) According to the Action Plan of the year 2017, one hundred and eight financial statements had been planned to be obtained from co-operative societies. However, only 59 financial statements had been obtained from 45 societies and out of them, 28 financial statements belonged to the year 2016 and only one society had submitted financial statements for the year 2017. Out of 59 financial statements submitted, audit reports of 30 financial statements had been issued by 10 July 2018 and audit of 15 financial statements had not been completed.
- (b) Even though it had been planned to call the society meeting and to take legal action in respect of co-operative societies by which accounts had not been submitted properly in terms of Section 43(a)(3) of the Co-operative Societies Amendment Act and the Action Plan of the year 2017, action had not been taken thereon.
- (c) Audit of 12 financial statements submitted in preceding years, had not been completed and reports thereon had not been issued even by 10 July 2018.
- (d) According to the Action Plan of the year 2017, it had been planned to collect contributions from 52 co-operative societies. Nevertheless, only contributions amounting to Rs.21,401,908 had been collected from 23 societies.
- (e) Even though it had been planned in the year under review to grant loans of Rs.20 million to co-operative societies from the Co-operative Fund for strengthening the co-operative movement, no loans whatsoever had been granted to societies in the year under review.
- (f) It had been planned to take decisions and future action on loans recoverable from inactive co-operative societies belonging to the Department by referring them to the Fund Management Committee. However, action had not been taken by 31 December 2017 even to write off the loans of societies by converting non-performing loans into performing loans.
- (g) According to the Action Plan, it had been planned to obtain "50(a)" Report from 16 co-operative societies for liquidation by cancelling their registration, appoint

liquidators for 24 societies and to implement liquidating activities. However, no action whatsoever had been taken thereon in the year 2017.

- (h) Even though it had been planned to prepare key Performance Indicators (KPI) in the Action Plan in respect of declaration of the Statistic Report of the year 2016 and to distribute the said Report by 15 November 2017, the relevant activities had not been completed even by 30 June 2018. Even though provisions amounting to Rs.1,000,000 had been made for the preparation and printing purposes of that report, those provisions had been utilized for other purposes.
- (i) According to the Action Plan, 700 instances in which legal proceedings were initiated for settling disputes in co-operative societies had been targeted, only 177 instances had been provided in the year under review.

2.3 Obtaining Supplies and Services through the Procurement Process

2.3.1 Planning of Procurements

- (a) Even though it had been planned in the Procurement Plan prepared for the year under review only to purchase wooden furniture, machinery and equipment by spending Rs.800,000, the Department had purchased air conditioners, office equipment and computer accessories at the total cost of Rs.17,834,745 exceeding the said value.
- (b) Even though a sum of Rs.5,990,956 had been spent from the Surplus Fund in the year 2017 for modernization activities of the Department, it had not been included in the Procurement Plan of the year 2017.

2.4 Management Weaknesses

The Human Resources Development Co-operative Banking Society Ltd , Sri Lanka had commenced its liquidation by cancelling the registration in the year 2009. Even though 09 years had elapsed by 31 December 2017 after commencing the liquidation, it had not been completed. Moreover, the audit on liquidation had not been carried out and reports thereon had not been issued by the Department.

2.5 Utilization of Provisions made available by Parliament for the Performance of Functions

Information on provisions made for the Department during the period of 05 years ended 31 December 2017, utilization and savings thereof and audit observations thereon are given below.

Year	Type of Expenditure	Net Provision ----- Rs.Millions	Utilization ----- Rs.Millions	Savings ----- Rs.Millions	Savings as a Percentage of the Net Provision -----
2013	Recurrent	48.95	48.88	0.07	0.14
	Capital	15.75	15.14	0.61	3.87
	Total	64.70	64.02	0.68	1.05
2014	Recurrent	55.58	55.54	0.04	0.07
	Capital	16.40	12.74	3.66	22.32
	Total	71.98	68.28	3.70	5.14
2015	Recurrent	63.79	62.20	1.59	2.49
	Capital	23.21	17.42	5.79	24.94
	Total	87.00	79.62	7.38	8.48
2016	Recurrent	64.72	61.13	3.59	5.55
	Capital	11.46	11.18	0.28	2.44
	Total	76.18	72.31	3.87	5.08
2017	Recurrent	67.53	66.31	1.22	1.81
	Capital	31.50	31.12	0.38	1.21
	Total	99.03	97.43	1.60	1.62

2.5.1 Excess Provisions

Excess provision totalling Rs.0.74 million had been made for 03 Objects and as such the savings, after the utilization of provisions totalling Rs.2.17 million, ranged between 16 per cent and 90 per cent of the net provisions relating to the respective Objects.

2.6 Advances to Public Officers Account

Limits Authorized by Parliament

Limits authorized by Parliament for the Advances to Public Officers Account, Item No.30101 of the Department and the actual amounts are given below.

Expenditure -----		Receipts -----		Debit Balance -----	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
-----	-----	-----	-----	-----	-----
Rs.Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
6.50	6.49	2.70	2.99	30.00	14.81

The following observations are made in this connection.

(a) Non-recovery of outstanding Loan Balances

According to the Reconciliation Statement presented to Audit, the loan balances that remained outstanding as at that date totalled Rs.1,002,305. Even though those outstanding balances remained over periods ranging from 01 year to 05 years, the Department had failed even by the end of the year under review to recover those outstanding balances.

(b) Non-recovery of Loan Balances of Officers who had gone on Transfer

In terms of National Budget Circular No.118 of 11 October 2004, it had been cited that the loan balances should be settled within 03 months of the transfer out of an officer. However, according to the reconciliation statement of the Department, prepared as at 31 December 2017, loan balances totalling Rs.308,512 recoverable from officers who had transferred out from the Department, had remained unrecovered over a period between 01 and 05 years.

2.7 General Deposit Account

The balance of the General Deposit Account of the Department as at 31 December 2017 amounted to Rs.2.95 million. Action in terms of Financial Regulation 571 had not been taken on deposits totalling Rs.2.63 million older than 2 years (except Land Deposits).

2.8 Internal Audit

An Internal Audit Unit had not been established in the Department and the Internal Audit Unit of the Ministry carries out the internal audit of the Department. However, internal audit reports had not been presented to Audit.

2.9 Assets Management

2.9.1 Non-maintenance of Registers and Books

The following observations are made.

The Register of Fixed Assets and the Register of Fixed Assets on Computers, Accessories and Software in terms of Treasury Circular No.842 of 19 December 1978 and Treasury Circular No.IAI/2002/02 of 28 November 2002, had not been maintained respectively.

2.9.2 Record of Assets

In terms of Assets Management Circular No.01/2017 of 28 June 2017, it had been indicated that information on all assets should be submitted to the Office of the Comptroller General coming under the purview of the Ministry of Finance and Mass Media. Nevertheless, that information had not been submitted even by 17 August 2018 by the Department.

2.10 Human Resources Management

2.10.1 Approved Cadre, Actual Cadre and Expenditure on Personal Emoluments

The position on the approved cadre, actual cadre and vacancies as at 31 December 2017 for the performance of the function mentioned in paragraph 2.1 above, is given below. The Department had spent a sum of Rs.49.47 million for the personal emoluments for the year under review.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
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(i)	Senior Level	11	05	06
(ii)	Tertiary Level	09	04	05
(iii)	Secondary Level	110	88	22
(iv)	Primary Level	20	15	05
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	Total	150	112	38
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The following observation is made in this connection.

Even though 35 training programmes had been planned to be conducted for the officers of the Department in the year 2017, only 09 programmes had been conducted. Moreover, a sum of Rs.739,725 had been spent therefor in the year under review.