

Head 301 – Department of Co-operative Development

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Co-operative Development for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with provisions of the National Audit Act No.19 of 2018. The summary report including my comments and observations on the financial statements of the Department of Co-operative Development was issued to the Accounting Officer on 30 May 2019 in terms of Section 11(1) of the National Audit Act No.19 of 2018. The Annual Detailed Management Audit Report relating to the Department was issued to the Accounting Officer on 27 May 2019 in terms of Section 11(2) of the National Audit Act. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act No.19 of 2018.

In my opinion, except for the effects of the matters described in the paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Department of Co-operative Development as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibility of the Chief Accounting Officer and the Accounting Officer on the Financial Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and the provisions in Section 38 of the National Audit Act No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per section 16(1) of the National Audit Act No.19 of 2018, the Department is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Chief Accounting Officer and Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness

of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's summary report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement, of the financial statements, whether due to fraud or error design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional, omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

I express the following matters in accordance with Section 6(d) and Section 38 of National Audit Act No.19 of 2018.

- (a) Since there was no need for the preparation of financial statements for the preceding year, it could not be stated that the financial statements presented was consistent with the preceding year.

- (b) Since there was no requirement for the Department of Co-operative Development to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

The following observations are made in this connection.

Observation	Recommendation	Comments of the Accounting Officer
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(a) In terms of Public Accounts Circular No.267/2018 dated 21 November 2018, the revenue collected on behalf of other Revenue Accounting Officers, should have been included in the financial statements under other receipts. Nevertheless, the receipts amounting to Rs.114,754 only had been shown out of the receipts so collected amounting to Rs.2,799,938. Accordingly, the receipts had been understated by Rs.2,685,184.	Action should be taken in terms of the provisions of the Public Accounts Circular.	Miscellaneous revenue of Rs.79,626, contributions to Widows and Orphans Pensions Fund of Rs.2,167,240 and loan interests of Rs.553,772 had been included in the statement of financial performance under other receipts, salaries, wages and other benefits and other receipts respectively.
(b) The figures of the statement of financial performance should have been based on the figures of Treasury final accounts in terms of the above mentioned Circular. Nevertheless, action had not been taken accordingly, and as such the instances of differences with the Treasury final accounts report were observed as shown below.	Action should be taken in terms of the provisions of the Public Accounts Circular.	
(i) Over statement of receipts of deposits by Rs.28,473.		
(ii) Over statement of payments of deposits by Rs.7,800.		
(iii) Understatement of receipts of advances by Rs.318,150.		

- (iv) Understatement of payments of advances by Rs.489,670.
 - (v) Overstatement of recurrent and capital expenditure by Rs.1,745,000,000.
 - (vi) Due to the above observations the balance of the imprest account had been understated by Rs.1,747,492,991 as per the statement of financial performance as at 31 December.
- (c) The following deficiencies were observed in the imprest adjustment account furnished to audit.
- (i) A sum of Rs.1,745,477,389 expended for other heads by the Department had not been shown in the imprest adjustment account.
 - (ii) The following differences remained between the Departmental books and Treasury final accounts statements had not been adjusted.
 - * Receipts of deposits amounting to Rs.28,398.
 - * Payments of deposits amounting to Rs.7,800.

(d) **Assurance to be made by Accounting Officer**

The following observation is made.

<u>Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
In terms of Sub-sections 38(1)(c) and 38(2) of the National Audit Act No.19 of 2018, the effectiveness of the financial control system of the Department should be reviewed periodically in writing and copies of the same shall be made available to the	The requirements of the Sub-sections 38(1)(c) and 38(2) of the National Audit Act No.19 of 2018 should be accomplished.	Comments not furnished.

Auditor General. Nevertheless, those statements had not been made available for audit even by 31 May 2019.

2. Financial Review

2.1 Expenditure Management

The following observation is made.

Observation	Recommendation	Comments of the Accounting Officer
Excess provisions had been made for 04 Objects and as such the savings after the utilization of provisions ranged between 45 per cent to 76 per cent of the provisions of the respective Objects.	The estimates should be prepared in terms of the provisions of the Financial Regulation 50.	Accounting Officer had informed that the provisions had been saved due to the reasons such as not arising a requirement to purchase and refurbish the machinery and equipment and non-availability of adequate time period to follow the procurement process.

2.2 Reconciliation Statement of the Advances to Public Officers Account

The following observations are made in this connection.

Observation	Recommendation	Comments of the Accounting Officer
(a) Loan balances amounting to Rs.1,002,305 were remained outstanding which recoverable from 08 officers except the officers who transferred out as at 31 December 2018. Loan balances of Rs.825,529 out of those balances had to be further recovered even by 31 May 2019. Those loan balances were remained outstanding for over 5 years period.	Action should be taken to recover outstanding loan balances.	A loan balance amounting to Rs.176,776 recoverable from a deceased officer had been recovered from the death gratuity. Action is being taken to recover other loan balances.
(b) Loan balances amounting to Rs.526,379 were remained outstanding as at 31 December 2018 from	Action should be taken in terms of the National Budget Circular No.118 dated 11 October 2004.	A sum of Rs.149,530 was received from 2 officers who transferred to the North-western Provincial Department of Co-

the officers who transferred out. Even though, a sum of Rs.149,530 out of that had been recovered on 05 May 2019, loan balances of Rs.376,849 had remained outstanding further. Even though, the loan balances of an officer who transferred on station transfers should be recovered within 3 months in terms of the National Budget Circular No.118 of 04 October 2004, the Department had failed to recover the loan balances.

operative Development to settle the loan balances. Action is being taken to recover other loan balances.

- (c) A difference of Rs.215,169 between the Departmental books and the Treasury print-outs was revealed in the balance of the Advance Account as at 31 December 2018. The reconciliation of Departmental books of Accounts with Treasury books should be made in terms of Financial Regulation 427. Action is being taken to identify and settle this difference remained since several years.

3. Operating Review

3.1 Performance

The following observations are made relating to the performance of the Department.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) According to the Action Plan of the year 2018 prepared by the Department, it was planned to obtain 94 financial statements for audit from Co-operative Societies. The Co-operative Societies had furnished only 67 financial statements. The balance amount of financial statements had not been furnished even by the end of the year under review and the Department had failed to obtain those financial statements. Further,	Action should be taken to achieve the targets of the Action Plan.	There was a shortage of staff with an adequate knowledge, in the co-operative societies and that was the reason for the delay of furnishing the reports. Even though, it was planned a proper training programme thereon in the year 2018, it was not implemented and it was affected for the delay of accounts.

it was targeted to release 70 final audit reports, but 45 reports only had been released.

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| <p>(b) In terms of Section 43(a)(2) of the Co-operative Societies Amendment Act No.5 of 1972, annual statements on accounts and statistics of the Co-operative Societies should have been furnished to the Registrar within 3 months after the end of the financial year. Nevertheless, 34 financial statements had not been furnished by 24 Co-operative Societies by 31 December 2018 to the Registrar.</p> | <p>Action should be taken to obtain financial statements by the Registrar in terms of the Act.</p> | <p>I accept that, it should be amended as 24 Co-operative Societies had not furnished 34 financial statements.</p> |
| <p>(c) The activities planned for the year under review such as issuing 50(a) report for the inactive Co-operative Societies, publish the cancellation of registration, appointing of liquidators and implementation of liquidation activities had not been implemented in the year 2018.</p> | <p>Action should be taken to achieve the targets of the Action Plan.</p> | <p>The activity of submitting 50(a) reports for the inactive Co-operative Societies should have been done by the Society Division of the Department. As none of the report whatsoever had been received from the Society Division, there is no possibility to take follow-up action.</p> |

3.2 Non-execution of Functions

 The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) In terms of the decision of the Cabinet of Ministers No. 403/13/0409/540/005 dated 26 April 2013, it was decided to establish a Special Monitoring Unit to monitor the activities of the Co-operative Rural Banks, Rural Banks Associations, Sanasa Societies, Sanasa Associations and other financial Co-operative</p>	<p>A proper arrangement in respect of the monitoring activities should be implemented within the Department.</p>	<p>The draft statutes for monitoring of financial services had not been authorized by the Provincial Department of Co-operative Development. As such this monitoring programme could not be implemented successfully.</p>

Societies. Accordingly, a sum of Rs.20,997,850 had been incurred from the year 2013 to the year 2018 for the Monitoring Unit established. Even though, a period of 06 years had elapsed from the commencement of that unit, the Department had not executed a proper arrangement in respect of the monitoring of activities.

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| <p>(b) The proposals had been approved in the monitoring committee meetings to commence a data bank including particulars relating to financial services societies and to collect and update the preliminary particulars according to a proper format. The awareness programmes to introduce methodology for monitoring of rural banks and other financial service Co-operative Societies and to collect basic data had been conducted. A sum of Rs.5,920,186 had been incurred thereon from the year 2013 up to the year under review. Nevertheless, a data system in respect of rural banks and other financial services Co-Operative Societies established all over the island was not made available in the Department.</p> | <p>A data system should be implemented in the Department.</p> | <p>The data bank could not be created due to non-receiving of particulars of societies which requested by the Provincial Departments of Co-operatives.</p> |
| <p>(c) The methodology for monitoring of other</p> | <p>The methodology for monitoring should</p> | <p>The attention was paid to be monitor other financial services</p> |

financial services societies and Sanasa societies except rural banks had not been implemented in the Department. implemented for other financial services societies and for sanasa societies as well. societies and sanasa societies.

3.3 Management Weaknesses

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) A sum of Rs.632.5 million had been granted from the Rolling Fund of the Department as interest free loans for 9 Provincial Consumer Co-operative Unions, Co-operative Marketing Federation, Sri Lanka Consumer Co-operative Society (Ltd) and Co-operative Wholesale Establishment to purchase essential consumer items in the years of 2010 and 2011. Even though, 09 years had elapsed after providing loans, the loans had not been repaid in terms of the agreement and as such a sum of Rs.224.05 million had remained as recoverable as at 31 December 2018. But the Department had not taken adequate action to recover the loan.	Adequate action should be taken to recover loans	Prompt action will be taken to send letters in writing to the Boards of Directors of respective societies to recover arrears of loans immediately and for awareness of all consumer Unions and the Provincial Commissioners to take actions immediately.
(b) The Sub-committee of the Cabinet of Ministers had decided to grant a sum of Rs.150 million in 2 instalments by General Treasury through the Department of	Action should be taken to obtain a Security bond to recover respective money in an instance of evading or delaying of repayments of loans.	As granting money for potato farmers had to be carried out immediately that action could not be taken to obtain a security bond.

Co-operative Development to the Sri Lanka Consumers Co-Operative Society Ltd. to purchase potatoes at guaranteed price of Rs.92 per kilogram from the farmers of the Uva Province based on the recommendation of the Committee of Consumer Living Index held on 16 October 2018. Accordingly, the approval had been given by a decision of the Cabinet of Ministers on 23 November 2018 to grant a sum of Rs.75 million to the above Union subject to the re-payment within 06 months period and a sum of Rs.75 million had been granted to the above Union on 29 November 2018 out of the funds received for the Department under the Object of 001-1-2-0-1409 of the Presidential Secretariat. But the Department had not taken action to obtain a security bond to recover respective money in an event of evading or delaying the repayments of loans by the Union.

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| (c) The potatoes purchased by the Co-operative Union had been stored in 3 stores and 932,868 kilo grams of potatoes valued at Rs.85,823,850 which stored in 2 stores belonging to the Department of Food Commissioner were perished. Therefore, the Veyangoda stores No.8 | An adequate supervision should be carried out by the Department in this regard. | The Department had supervised this programme which has been directly implemented by the Co-operative Union and further action will be taken based on the respective reports. |
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which belonging to the Department of Food Commissioner was got damaged. It was informed by the letter of the Secretary of the Ministry of Industries and Commerce

No.MIC/116/COL/Letters dated 19 October 2018, that the money given to the Co-operative Union should be obtain as repayments and should be settled to the Treasury through the Department and the Ministry and further informed that the Co-ordination and supervision of all works in this regard has been assigned to the Department. Nevertheless, the potatoes had perished as non-availability of proper arrangement in the Union for selling of potatoes and an adequate supervision had not been carried out by the Department in this regard.