

Cooperative Surplus Fund - 2019

1.1 Disclaimer of Opinion

The audit of the financial statements of the Cooperative Surplus Fund for the year ended 31 December 2019 comprising the Balance Sheet as at 31 December 2019, income and expenditure statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 read in conjunction with provisions of the National Audit Act, No.19 of 2018. My comments and observations which I consider should be presented in Parliament, appear in this report.

I do not express an opinion on the financial statements of the Fund. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed on the matters described in paragraph 1.5 of this report.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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

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

My responsibility is to conduct an audit of the Fund's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain

sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of Financial Statements

The Fund is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non- compliance with Sri Lanka Public Sector Accounting Standards

The following observation is made.

| Non-compliance with reference to the relevant Standard | Comments of the Management | Recommendation |
|--|-----------------------------------|---|
| In terms of paragraph 65 of Sri Lanka Public Sector Accounting Standard 7, non-current assets costing Rs.4,791,681 had been fully depreciated as the useful life of non-current assets had not been reviewed annually. However, they had still been in use by the Fund. Moreover, a statement of changes in net assets/equity had not been presented along with financial statements. Further, notes including a summary of significant accounting policies and other detailed notes had not been presented along with financial statements. | It is agreed. | Action should be taken in terms of the Accounting Standard. |

1.5.3 Accounting Deficiencies

The following observation is made.

| Audit Observation | Comments of the Management | Recommendation |
|--|--|---|
| Accounting unusable computer software costing Rs.189,001 as intangible assets. | A committee has been appointed for revaluation of all fixed assets owned by the Surplus Fund as at 31 December 2020. | Action should be taken to account the said revalued figure. |

1.5.4 Unexplained Differences

The following observation is made.

| Item | Value As per Financial Statements | Value As per Corresponding Record | Difference | Comments of the Management | Recommendation |
|---------------------------|--|--|-------------------|---|--|
| ----- | ----- | ----- | ----- | ----- | ----- |
| | Rs. | Rs. | Rs. | | |
| Cooperative Society Loans | 14,680,948 | - | 14,680,948 | The said difference between the Cooperative Society Loan Ledger and the Schedule is a difference brought forward for a long period. | Action should be taken to identify and rectify the difference. |

1.5.5 Suspense Accounts

| Item | Amount | Period in Suspense | Comments of the Management | Recommendation |
|-------------------|---------------|---------------------------|--|---|
| ----- | ----- | ----- | ----- | ----- |
| | Rs. | | | |
| Suspense Accounts | 9,475,735 | 20 years | Action is being taken to settle the said balance brought forward over a long period. | Adjustments necessary for accounts should be made by settling the Suspense Account. |

1.5.6 Lack of Documentary Evidence for Audit

The following observations are made.

| Item | Amount | Audit Evidence not made available | Comments of the Management | Recommendation |
|--|---------------|--|---|--|
| ----- | ----- | ----- | ----- | ----- |
| | Rs. | | | |
| (a) Receivable Cooperative Society Loans | 620,477,724 | Confirmation of balances | Letters have been forwarded at several times by these | Action should be taken to obtain confirmation of balances. |

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|-----|---|------------|---|--|---|
| | | | | societies for confirmation of balances and responses received therefor had been at a weak level. | |
| (b) | Amount receivable from the Cooperative Fund | 5,029,486 | Confirmation of balances | Action is being taken to settle the said balance brought forward over a long period. | Action should be taken to settle balances. |
| (c) | General Deposit Account | 8,411,423 | Detailed schedule | Officers were instructed to submit them expeditiously. | Action should be taken to submit schedules. |
| (d) | Fixed Deposit Guarantee Creditors | 58,918,112 | Loan files and confirmation of balances | Action is being taken to rectify in the preparation of accounts of the current year. | Confirmation of balances should be submitted. |
| (e) | Liquidated Account (Debit Balance) | 2,620,473 | A copy of the Liquidated Account prepared | Officers were instructed to submit them in the current year. | Copies of accounts should be submitted. |
| (f) | Payable Treasury Fund | 150,000 | Confirmation of balances | Action is taken to submit expeditiously. | Confirmation of balances should be submitted. |
| (g) | Payable National Trustee Fund | 3,871,256 | Confirmation of balances | Action is being taken to settle the said balance brought forward over a long period. | Confirmation of balances should be submitted. |

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|-----|-----------------|----------|------------|--------------------------|--|---|
| (h) | Receivable Fund | Treasury | 81,871,370 | Confirmation of balances | Action is taken to submit expeditiously. | Confirmation of balances should be submitted. |
|-----|-----------------|----------|------------|--------------------------|--|---|

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observation is made.

| Audit Observation ----- | Comments of the Management ----- | Recommendation ----- |
|--|--|---|
| Action had not been taken to settle the balance of dishonoured cheques valued at Rs.1,721,566 brought forward since the year 1999, indicated under various assets. | Action is being taken to rectify it in the current year. | Action should be taken to rectify the balance of dishonoured cheques. |

1.6.2 Payables

| Audit Observation ----- | Comments of the Management ----- | Recommendation ----- |
|---|--|---|
| Action had not been taken to settle the balance older than 30 years amounting to Rs.6,017,551, indicated under various assets of the balance sheet, which was payable to the Surplus Fund and balances of 05 Liability Accounts totalling Rs.1,834,392. | The said balance is brought forward from several years and action will be taken to rectify by looking into it in future. | Action should be taken to settle these loan balances. |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had been a surplus of Rs.192,948,274 as compared with the corresponding surplus of Rs.204,460,518 for the preceding year, thus indicating a deterioration of Rs.11,512,244 in the financial result of the year under review as compared with the preceding year. The decrease in the interest income by Rs.83,211,614 had mainly attributed to the said deterioration.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|--|--|---|
| (a) Follow up activities of the Department with regard to the loan amounts granted to cooperative societies by the Fund was at a weak level. As such, out of the loan amount totalling Rs.823,971,799 granted to cooperative societies, a sum of Rs.634,531,866 representing 77 per cent was recoverable as at 31 December of the year under review. Further, interest on the balance of the said loan amount recoverable as at 31 December of the year under review was Rs.255,706,442. | It is agreed. The Provincial Commissioners have agreed to assume the responsibility for the recovery of loans granted to societies registered at provincial level. Expected targets could not be achieved due to COVID pandemic occurred in the year 2020. Prompt action will be taken to transfer the said loans to the Provincial Department of Cooperative Development. | Steps should be taken to recover the loan amount. |
| (b) A sum of Rs.143,919,037 had been granted as loans from the year 1992 to the year 2014 to the Consumer Cooperative Societies Federation of Sri Lanka Ltd., and only a sum of Rs.24,891,113 had been recovered by 31 December 2019. A further sum of Rs.119,027,924 remains recoverable and this old balance was being brought forward for a period ranging from 05 to 27 years. | It has been notified to speed up finalizing the payment of the said loans and legal action will be taken relating to recovery of loans in case of any further failure in making payments. | Steps should be taken for recovery of loans. |
| (c) Loans amounting to Rs.12,000,000 has been paid from this Fund in the years 2010 and 2011 for commencement of co-op city super markets and payment of loan installments and interest had been delayed in terms of agreements. These are balances as old as 8-9 years and a sum of Rs.9,965,693 was recoverable as at 31 December 2019. | Steps will be taken to speedily recover the loans granted for commencement of the said co-op city super markets as well. | Steps should be taken for recovery of loans. |
| (d) Even though the loan of Rs.19,550,000 | Necessary action will be | Necessary action |

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| <p>granted to the marketing association in the year 2006 was mentioned as an amount written off after granting as fixed deposit securities, appropriate action relating to the loan balance had not been taken up to 31 December 2019 after confirmation in this connection.</p> | <p>taken to recover the said loan by gathering information in this connection from the two relevant parties.</p> | <p>should be taken by obtaining confirmation whether it is from the amount written off.</p> |
| <p>(e) A loan balance of Rs.26,037,173 was recoverable from 34 multipurpose co-operative societies as at 31 December 2019. These loans had been granted during the period from the year 1989 to the year 2004.</p> | <p>The officers have been instructed to carry out recovery activities by paying special attention to the said provincial multipurpose co-operative societies as pointed out by Audit.</p> | <p>Steps should be taken for recovery of loans.</p> |
| <p>(f) The registration of Sri Lanka Poultry Farmers' Cooperative Federation Ltd. had been cancelled in the year 2003 and a liquidator as well had been appointed for the liquidating activities thereof. Liquidating activities had not been finalized after the year 2012 and the reports of the liquidator had not been submitted and liquidating activities had not been finalized despite the lapse of 08 years up to now. Out of the loan granted to this society by the Cooperative Surplus Fund, a sum of Rs.100,000 was recoverable as at 31 December 2019.</p> | <p>The officers have been instructed to finalize liquidating activities of the society and to recover monies speedily.</p> | <p>Steps should be taken for recovery of loans.</p> |
| <p>(g) A loan amounting to Rs.18,249,750 had been granted from the Cooperative Surplus Fund for business activities of the Sri Lanka Dairy Producers Federation Ltd. and out of that, a sum of Rs.16,549,750 was recoverable as at 31 December 2019. The Sri Lanka Dairy Producers Federation Ltd. is presently inoperative.</p> | <p>The Polonnaruwa District Dairy Producers Cooperative Society and other cooperatives have made requests for this building and considering accordingly, steps are being taken to recover these loans by taking appropriate measures.</p> | <p>Steps should be taken for recovery of loans.</p> |
| <p>(h) A sum of Rs.100 million has been provided to the Cooperative Hospital Society Ltd. - Kurunegala on 26 September 2012 for constructing a new building complex and taking action in terms of agreements had</p> | <p>The said society has paid a sum of Rs.5,000,000 in the year 2019 as loan interest installments and the North Western Provincial</p> | <p>Steps should be taken for recovery of loans.</p> |

- been delayed. Moreover, a sum of Rs.94,083,304 remained to be settled by 31 December 2019.
- Commissioner/Registrar of Cooperative Development has been briefed for recovery of the remaining outstanding loan installments.
- (i) An interest free loan amounting to Rs.4,000,000 had been obtained by the Nikaweratiya Development Cooperative Society Ltd. from the Cooperative Surplus Fund on 17 January 2014 for a construction contract. Payment of loans has not been made in terms of agreements and a balance of Rs.1,000,000 was further recoverable by 31 December 2019 despite a lapse of six years after obtaining the loan.
- Out of the loan obtained by this society, a sum of Rs.03 million has been already paid and the sum further recoverable amounts to Rs.01 million. The North Western Provincial Commissioner /Registrar of Cooperative Development has briefed the society through letters with copies for recovery of the remaining outstanding loan installments.
- Steps should be taken for recovery of loans.
- (j) The payment of loan amounting to Rs.50,000,000 granted in the year 2013 to the Cooperative Hospitals Society Ltd. - Galle District had been defaulted in terms of agreements. No installment whatsoever had been paid as at 31 December 2019 and a 06 year old loan balance remained as at that date.
- The Southern Provincial Commissioner/Registrar of Cooperative Development has been briefed through letters with copies for recovery of outstanding loan installments from this society. Action is being taken to recover the said loans speedily.
- Steps should be taken for recovery of loans in terms of agreements.
- (k) Out of the loans of Rs.10,000,000 and Rs.7,000,000 granted in the years 2013 and 2014 respectively to the Kobeigane Multipurpose Cooperative Society, a sum of Rs.15,527,320 was recoverable by 31 December 2019. These are 06 year old loans.
- The North Western Provincial Commissioner /Registrar of Cooperative Development has been briefed through letters with copies for recovery of outstanding loan installments and action is being taken to recover the said loans speedily.
- Steps should be taken for recovery of loans.
- (l) The payment of loan amounting to
- The North Western
- Steps should be

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|--|---|--|
| <p>Rs.19,500,000 granted in the year 2013 to the Nikaweratiya Cooperative Development Society Ltd., for purchase of a motor grader machine and a multipurpose machine, had been defaulted in terms of agreements even by 31 December 2019. The loan balance on which no installment had been recovered so far, is older than 06 years.</p> | <p>Provincial Commissioner /Registrar of Cooperative Development has been briefed through letters with copies for recovery of outstanding loan installments from the said society and action is being taken to recover the said loans speedily.</p> | <p>taken for recovery of loans in terms of agreements.</p> |
| <p>(m) A loan amounting to Rs.75,000,000 had been granted from this Fund for business activities of the Building Materials Corporation Ltd. Even though a period of 06 years had elapsed after granting of the loan, a sum of Rs.13,969,497 was further recoverable.</p> | <p>The Chairman of the Building Materials Corporation Ltd. has been notified in writing, for speedy recovery of the said monies and the Secretary to the Ministry as well has been notified in writing.</p> | <p>Steps should be taken for recovery.</p> |
| <p>(n) A loan amounting to Rs.25,000,000 had been granted to the National Institute of Cooperative Development in the year 2014 without entering into an agreement. Even though a period of 06 years had elapsed, a sum of Rs.22,119,454 remained recoverable as at 31 December 2019.</p> | <p>It has been notified to settle this payment and it has been further notified that a sum of Rs.3,119,454 was paid on 14 July 2020.</p> | <p>Action should be taken to recover the loan balance.</p> |