

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 2019 comprising the statement of financial position as at 31 December 2019 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018 . The Summary Report containing my comments and observations on the financial statements of the Department of Co-operative Development was issued to the Accounting Officer on 01 July 2020 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Department of Co-operative Development was issued to the Accounting Officer on 20 October 2020 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared in accordance with the provisions of State Accounts Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Department of Co-operative Development as at 31 December 2019 and its financial performance and cash flow 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 the 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 Responsibilities of Chief Accounting Officer and the Accounting Officer on Financial Statements

The Chief Accounting Officer and the Accounting Officer are responsible for Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 .

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 annual and periodic financial statements to be prepared.

The Accounting Officer shall ensure that an effective internal control system is maintained and maintained for the financial control of the Department in terms of sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of Financial Statements

My objective is to express a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the Summary Report of the Auditor General 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 judgment and maintain professional skepticism throughout the audit. I also furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control , obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Sub-section 6 (1)(d) and Section 38 of the National Audit Act No. 19 of 2018 .

- (a) The financial statements are in consistent with those of the preceding year,
- (b) The recommendations made by me regarding the financial statements furnished for the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Cash Flow Statement

Audit Observation	Recommendation	Comments of the Accounting Officer
Purchasing of assets that should be shown under investment activities in cash flow statement valued at Rs. 1,014,769 had been stated under operational activities.	The investment activities should be presented accurately in the cash flow statement.	Purchasing of assets valued at Rs.1,014,769 had been erroneously stated under operational activities. Actions will be taken to correct.

1.6.2 Non-compliance with Laws, Rules, Regulations

Audit Observation	Non-compliance	Recommendation	Comments of the Accounting Officer
Budget Circulars No. 04/2019 of 17 June 2019 and 05/2019 of 24 September 2019	Although 25 per cent of capital expenditure should be saved for the year 2019, actions had not been taken in respect of 04 capital expenditure objects accordingly.	Arrangements should be made as per the circular instructions.	The curtailment of provisions for the relevant expenditure objects had not been carried out as agreed during the discussions made with the officials of the Ministry and the Budget Department. Therefore, a saving of 25 per cent of the capital expenditure was not required.

2. Operating Review

2.1 Planning

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) The submission of financial statements of 27 Co-operative Societies which were directly supervised under the Department of Co-operative Development had been delayed for a period of 01 to 05 years. Further, the financial statements of 10 Societies had not been submitted to the Registrar in the upcoming financial year after the registration.</p>	<p>The accounts should be furnished to the Registrar within 03 months after the end of the relevant financial year in terms of the Co-operative Societies Act.</p>	<p>Letters have been sent informing the submission of financial statements to the Co-operative Societies which had delayed two years to submit financial statements. Four out of 10 relevant Societies are inactive societies. One society has been registered under another name. Letters have been sent to another Co-operative Society requesting them to submit financial statements. Those Society officials have been made aware in respect of the other Societies.</p>
<p>(b) The audit of accounts had been carried out only on 10 Societies out of 68 Co-operative Societies for the year 2019 under the direct supervision of the Department by 31 August 2020. Out of those 10 Co-operative Societies, audit</p>	<p>Every registered Society should be audited by the Registrar once a year in terms of the Act and the Registrar should expedite the</p>	<p>I accept that the observations furnished are correct. Thirty Co-operative Societies have submitted financial statements by 31.08.2020 and since</p>

reports had been released to only 03 Societies.

submission of the deficiencies revealed by the audit to make aware the Society.

there were deficiencies in financial statements of Rice Producers Co-operative Society Limited, the Society was made aware of that. The authority for audit of 27 Co-operative Societies have been delegated and it is kindly informed that these delays occurred due to non-reporting to duties by the officials of the Department and the Co-operative Societies because of the Corona Epidemic .

2.2 Failure to Perform Roles

The following observations are made.

Audit Observation

- (a) It had been decided to establish a special regulatory unit to regulate the activities of Co-operative Rural Banks, Rural Bank Associations, SANASA Societies, SANASA Associations and other Financial Co-operative Societies in accordance with the Decision of Cabinet of Ministers No. ୧୦୧/13/0409/540/005 of 26 April 2013. Accordingly, a sum of Rs. 20,997,850 had been spent for the activities of the Regulatory Unit established from 2013 to 2019. Even though 07 years had elapsed

Recommendation

A proper programme should be executed within the Department in respect of regularity activities .

Comments of the Accounting Officer

The National Unit for Banking Regulation has systematically planned and implemented activities for the development and regulation of financial services societies since 2013. Nevertheless, it was difficult for the National Regulatory Unit which comprised of a staff of 08 at the beginning, to regulate more than 8,000

since the commencement of the unit, a proper programme regarding these regulatory activities had not been implemented in the Department.

- (b) Drafting a Bill to regulate the regulatory activities of Co-operative Rural Banks and Other Co-operative Societies which provide financial services had been commenced since 2019 and it had further remained at the draft level and a sum of Rs.1,344,871 had been spent for this purpose during the year under review.

To expedite the preparation of the Act.

Financial Services Co-operative Societies spread island-wide, and to carry out follow-up activities related to that at the society level.

The Draft Bill prepared has been handed over to the State Ministry of Cooperative Services, Marketing Development and Consumer Protection on 28.09.2020.

The expenditures have been incurred for regulatory activities under the Capital Expenditure and Co-operative Development Fund Expenditure in the year 2019 such as to hold committee meetings and to pay allowances, to publish newspaper advertisements to obtain public views on the Bill, to hold regulatory coordinating committee meetings, to hold discussions for the preparation of the accounting manual and to conduct the Regulatory Committee dated 16.09.2019 to draft this Bill.

2.3 Management Weaknesses

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>-----</p> <p>(a) The Information Technology Project (INFO COOP) with the value of Rs. 170 million was commenced in August 2017 and had been scheduled to be completed by October 2019 as per the Procurement Plan. However, the Project had not been completed even by the date of audit.</p>	<p>-----</p> <p>Necessary actions should be taken regarding delays in project activities and payments made to the consulting firm.</p>	<p>-----</p> <p>Vacancies remained in the posts of Assistant Director Information Technology of the Department, Information and Communication Technology Officer, Information and Communication Technology Assistant, and delays in receiving of approval to the Project from the Department of National Planning and lack of receiving cost approval had caused the delays of the Project .</p>
<p>(b) A sum of Rs. 16,146,654 had been incurred from the Co-operative Development Fund for the expenses of the International Co-operative Day celebrations. Out of this , a sum of Rs. 9,096,553 had been borne for entertainment, accommodation, fuel, printing and sundry expenses. A sum of Rs. 4,400,000 had been spent on providing school bags to school children and Rs. 1,263,712 had also been spent on newspaper advertisements. However, only Rs. 1,500,000 had been spent for the betterment of the Co-operative Sector,</p>	<p>The tendency to incur expenses in the celebration of International Co-operative Day should be for the betterment of the Co-operative Sector.</p>	<p>Expenses such as entertainment and accommodation have to be borne by the organizers as they have to provide accommodation, food and refreshments for those involved in organizational activities and the participants from all over the island. The expenditure incurred by the Co-operative Fund for this</p>

which was a minimum of 9 per cent of the Co-operative Day expenses.

event was Rs. 11,746,654 and bags have been distributed to school children in concurrence with the 96th International Co-operative Day 2018. A sponsorship of Rs. 4,400,000 had been provided by the People's Bank through the Ministry For this. The expenditure for this has been incurred in the year 2019.