

Head 301 – Department of Cooperative Development

I. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the Department of Cooperative Development for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 including my comments and observations on the financial statements of the Department of Cooperative Development was issued to the Accounting Officer on 31 May 2022 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 in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 29 June 2022. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution 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 paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Cooperative Development as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities for the Financial Statements are further described in the Auditor's Responsibilities section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 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.

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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Department exists, 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 Statement

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 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 judgment 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 audit 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 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.
- Evaluate the overall presentation, structure and content of the financial statements including 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 Sub-section 6 (1) (d) of National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Non-compliance of Financial Statement with Circular Provisions

Although financial statements should be prepared as per guideline No 2021/03 issued by the Department of State Accounts, the following are the instances that have deviated from that practice.

Audit Observation	Comments of the Accounting Officer ---	Recommendation
(a) As per paragraph 7.2 of the circular, although income collected by institutions reported on behalf of the other revenue accounting officers should be adjusted in the statement of imprest reconciliation without being included in the financial performance statement, a sum of Rs. 3,309,284 of such income had been included in the statement of financial performance without being adjusted in the statement of imprest reconciliation.	Action will be taken to present correctly in the future.	Action should be taken to prepare the accounts as per the circular instructions.
(b) As per 7.10 of the circular, the expenditure of Rs.878,358 incurred by the institutions reported on behalf of other heads, had not been shown in the statement of imprest reconciliation.	The balance settled at retiring by retired officers as and when loan balances are settled related to advance B account.	Statement of imprest reconciliation should be prepared as per stated in Guideline No 03 of state accounts.
(c) The value of Rs. 2,485,357 credited to the advance B account by other heads had not been shown in the statement of imprest reconciliation.	The sum of Rs. 2,485,357 to be recovered from the officers left on transfers, settled through account summeries is the balance related to the advance B account. It has been mentioned correctly.	Statement of imprest reconciliation should be prepared as per mentioned in state account guideline No 03.

1.6.2 Accounting Deficiencies

(a) Property, Plant and Equipments

	Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(i)	The assets valued at Rs. 290,600, purchased in the year under review had not been shown under purchases in the statement of non-financial assets and it had been included in the opening balance.	This has happened due to the way data presented by CIGAS software. There was no difference as at 31 12 2021 between the physical assets and the assets indicated by the CIGAS software.	Action should be taken to account for as per circular instructions.
(ii)	Although the disposed assets in the year had been indicated in the statement of non financial assets as Rs. 581,262, no disposal had taken place in the year under review.	Certain items have been indicated twice as the assets were entered into CIGAS programme. Accordingly, the Department of State Accounts has stated that such indications can be rectified only through a disposal process. Accordingly, the value of Rs. 581,262 is indicated as a disposal. This has occurred due to the method data is presented by the CIGAS programme.	Action should be taken to reveal correct information through financial statements.

(b) **Cash Flow Statement**

Audit Observation -----	Comments of the Accounting Officers -----	Recommendation -----
(i) Non- income receipts amounted to Rs. 3,309,284 and due to this being indicated as Rs. 3,284,284 in the statement of cash flow by understating Rs.25,000, the cash flow generated from operational activities had been understated by that amount	An error of omission has occurred.	Action should be taken to include the correct values in the financial statements.
(ii) Although the expenditure incurred for other heads amounted to Rs. 878,358 , due to this being indicated in the statement of cash flow as Rs.853,358, by understating Rs.25,000 the cash flow incurred for operational activities had been undersated by that amount.	An error of omission has occurred	Action should be taken to include the correct values in the financial statements

(c) **Government Officers' Advance B Account**

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
The opening balance difference according to the Departmental books and Treasury books of the Government officers' advance B account amounted to Rs. 215,169 and this difference that had been continuing over the past years had not been identified and settled in the year under review.	It has been informed that action is being taken to identify and rectify this difference that has been continuing over several years and due to the difficulty of finding information, delay has been caused in the rectification of the mistake.	The difference should be rectified after identification of the same.

2. Financial Review

2.1 Expenditure Management

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
The total net provision containing donations and contributions for Object No 301-1-1-1505 that amounted to Rs. 2,300,000 had been saved and 88 per cent of allocated provision under Object No 301-1-1-1203 and 71 per cent of allocated provision under object No 301-1-1-2002 had also been saved.	Although applications were submitted through banks for paying the contributions and donations, provision could not be properly utilized since it was not possible to release the relevant money due to the scarcity of foreign exchange.	Action should be taken to utilize the allocated money within the year.

2.2 Incurring of Liabilities and Commitments

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) As per the Financial Regulation 94 (1), although it is not possible to incur liabilities exceeding provision, the provision for Object No 301-1-1-1409 amounted to Rs. 3,700,000 and since the expenditure amounted to Rs.3,693,047, a sum of Rs. 6,953 was saved and exceeding that saving, liabilities up to Rs.182,230 had been incurred.	Since it was required to incur an additional expence for sanitation liquid which is regarded as an essential expenditure, liabilities had to be incurred exceeding savings.	Action should be taken not to incur liabilities exceeding provision.
(b) As per paragraph 4.5 of the state account guideline 2021/02 dated 26 October 2021, even though a liability not reported to the Treasury through appropriation account, cannot be paid as an expense of the preceding year, liabilities up to Rs. 216,791 indicated for 03 Objects had been paid in violation.	Officers have been instructed to act in accordance with the state account guideline 2021/02 in the future.	Action should be taken to follow circular instructions.

3. Operational Review

3.1 Non-performance of Functions

According to the report depicting the progress of the Action Plan, the following works had not been carried out as at 31 December 2021.

Audit observation	Comments of the Accounting Officer	Recommendation
(a) Bank Regulation Division		
Although 04 provincial co-ordination meetings for regulating Co-operative banks and co-operatives financial services societies, had been planned to be conducted, those meetings had not been conducted in the year under review and action had not been taken to revise the action plan also	That the activities of the Bank Regulation Division could not be performed as planned owing to the fact that the Covid-19 pandemic continued to exit from the start of the year 2021 and also due to inter-provincial travel restrictions being tightened from time to time by the Government.	When an unexpected situation occurs, action should be taken to carry out the relevant tasks using new technological methods or during periods when risks are minimized, by suitably revising the action plan.
(b) Development Division		
(i) Although it had been planned to prepare and initiate a training programme with the objective of creating a workforce full of knowledge, good attitudes and skills, it could not be carried out in the year under review.	That due to the difficulty of bringing together all workers under single programme on account of Covid pandemic prevailed in that year, instructions were given to arrange training programmes at provincial level.	Attention should be paid when revising the Action Plan.
(ii) That although, "Maintaining all cooperative societies continuously profitably" had been mentioned as a task under Action Plan, no action had been taken towards that end.	The responsibility of that task in the Action Plan had been assigned to the Board of Directors of the relevant Society and that the information in this regard is being collected at provincial level.	The party responsible for carrying out the task should be clearly included in the action plan by the Department and follow up activities should be performed in timely manner.

(c) **Audit Division**

- | | | | |
|------|---|--|---|
| (i) | Although it had been planned to refer to the Legal Division regarding whether to take legal action against 12 Cooperative Societies that had not properly submitted accounts, such task had not been carried out. | That the Society was made aware of the fact that legal action would be taken against the Societies that do not submit accounts . | Planned tasks should be initiated properly. |
| (ii) | Although it had been planned to publish notices for cancelling the registration of 03 identified inactive Societies and appointing liquidators, no action had been taken to carry out such tasks. | No comments had been made. | Planned tasks should be initiated properly. |

3.2 Annual Performance Report

Audit Observation	Comments of the Accounting Officer	Recommendation
As per paragraph 10.2 of the Public Finance Circular 2/2020 dated 28 August 2020, annual performance report had not been prepared and submitted along with the financial statements in terms of the specimen mentioned in the guideline No 14 issued by the Department of Public finance.	Currently being prepared.	Action should be taken to follow circular instructions.

3.3 Management Deficiencies

- | | | | |
|-----|--|---|--|
| (a) | As per mentioned in guideline No 01 issued related to the Public Finance Circular 01/2020 dated 28 August 2020, although action should be taken regarding loan balances of officers who have left on transfers in terms of sections 1.6, 1.7, and 6.3 of paragraph | As regards the three officers left on transfer, It had been informed that the relevant Ministry was informed to recover the loan balance of one officer and as regards another officer’s ‘loan balance, problems have | Action should be taken to recover loans as per circular provision. |
|-----|--|---|--|

xxiv of the Establishment Code, no action had been taken to settle loan balances valued at Rs.100,084 of 03 officers left on transfer to Government Ministries/Departments and loan balances valued at Rs. 47,353 of two officers left on transfer to Provincial Council Institutions. Those loan balances had remained outstanding from 23 years to 32 years.

cropped up in locating him due to the change of the Ministry and with regard to the remaining officer, the settling task has become problematic owing to the difficulty in finding the cash book of 1998.

As for loan balances due from officers who left on transfer to Provincial Councils, it had been informed that letters were sent on 09 05 2022 asking the loan balance related information to be sent back after certification through the Cooperative School of Polgolla.

- (b) As per 4.2.4 and 4.2.5 of the Establishment Code, although action should have been taken to recover loan balances due from officers who had retired from service, a balance of Rs. 44,394 due from one retired officer of the Department has been outstanding for over 05 years. Certifications have been obtained in this regard from the Divisional Secretariats of Gampaha and Attanagalla. Accordingly, further action is being taken to find more information related to this and settle the matter. Action should be taken to recover loans as per the Establishment Code.
- (c) There was a balance of Rs. 70,401 due over 05 years from two officers who had been dismissed from service and another balance of Rs. 48,720 due from an officer who had left service. Action had not been taken as per chapter (e) and (f) of the guideline No 01 related to Public Finance Circular 01/2020 . As for loan balances of officers dismissed from service, it has been informed that letters have been sent to a private address, and it has been further informed that no file is available in the name of an officer who has vacated his post. Action should be taken as per circulars.

4. Achieving Sustainable Development Goals

Audit Observation	Comments of the Accounting Officer	Recommendation
As per the National Budget Circular No 4/2018 dated 17 July 2018, the sustainable development goals that should be achieved by the Department had not been identified.	Action will be taken to present through the performance report-2021.	Action should be taken to identify the sustainable development goals.

5. Good Governance

5.1 Internal Audit

Audit Observation	Comments of the Accounting Officer	Recommendation
An internal Audit Unit had not been established as per provisions in section 40 of the National Audit Act No 19 of 2018.	Even though requests have been made from time to time to fill the vacancy of the Post of Internal Auditor, no officer has been sent so far. Action is now being taken to recruit an officer on acting basis for the post of Internal Auditor and accordingly an internal Audit Unit is to be established in future.	Action should be taken to establish an internal audit unit.