

Head 301 – Department of Co-operative Development

1. Financial Statements

1.1 Opinion

Head 301-The audit of the financial statements of the Department of Co-operative Development for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 these financial statements of the Department of Co-operative Development in terms of Section 11(1) of the National Audit Act, No.19 of 2018 was issued to the Accounting Officer on 29 May 2023. The Annual Detailed Management Audit Report of the Department was issued to the Accounting Officer on 17 July 2023 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. 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, the financial statements give a true and fair view of the financial position of the Department of Co-operative Development as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the 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 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 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 and its materiality depends on the influence on economic decisions taken by users 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 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

In terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018, I express the following matters.

- (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.

2. Financial Review

2.1 Expenditure Management

Audit Observation	Comment of the Accounting Officer	Recommendation
Under the Object No. 301-1-1-1505, the total provisions of the membership fees amounting to Rs. 1,505,000 of the of the NEDAC/ICT and CICTAB institutions had been saved. Although a provision had been so made, there was no confirmation to the Audit regarding further existence of those institutions.	Agreed. Provisions were allocated for the payment of membership fees in order to maintain the membership of these institutions and invoices had not been submitted for the payment of membership fees for the year 2022.	Provisions should be made after considering the requirement.

2.2 Incurring Liabilities and Commitments

The following observations are made..

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) The value of liabilities amounting to Rs. 284,762 had not been stated in the Format in Annexure (iii) of the financial statements.	Agreed. Officers have been instructed to take measures to correctly submit it in the future.	Action should be taken to prepare financial statements correctly.
(b) It was observed that the provisions of the year under review were insufficient to release liabilities of Rs. 307,595 related to 06 Objects and the remaining provisions of those Objects were about Rs.51,712.	Agreed. Officers have been instructed to use the provisions systematically.	Action should be taken to prevent from incurring liabilities in excess of provisions.

2.3 Certification to be made by the Accounting Officer

Audit Observation	Comment of the Accounting Officer	Recommendation
In terms of Section 38 of the National Audit Act, No.19 of 2018, the Accounting Officer shall ensure that an effective internal control system for the proper implementation internal audit task exists in the Department, that requirement had not been carried out in terms of observations in Paragraph 5.1 of the report.	Although requests have been made to fill the post of Internal Auditor of the Ministry of Public Administration, Provincial Council and Local Government, so far no officers have been attached and it has not been possible to fill the vacancies under the control of expenditure.	Action should be taken to establish an Internal Audit Unit.

2.4 Deposits

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>(a) The balance of the General Deposit Account (6000-0-0-17-0-32) related to compensations amounted to Rs. 2,903,644 as at 31 December 2022 and there was a balance of Rs. 2,879,594 in that account as at 31 December 2022. Accordingly, a balance of Rs. 24,050 only had been settled during the year.</p> <p>These balances are continued to exist over a period from 08 to 12 years. Although the deposit date had been stated in the General Deposit Account, the aforementioned balances had been stated as 31 December 2015 in the Sigaz balance list of the end of the year.</p>	<p>It has not been possible to find out specific information in this connection and it can be assumed that the accounts owned by the Fund might have been deposited in a government account and entered in the Sigaz system in the year 2015 due to specific reasons.</p>	<p>Action should be taken to ensure stating correctly the date on which the deposits were transferred to the Deposit Accounts.</p>

- (b) In terms of Financial Regulation 571, the deposits older than 2 years should be credited to the Government Revenue. Nevertheless, compensations of Rs. 2,879,594 had not been credited to the Government Revenue over a period from 08 to 12 years and the non-conclusion of the cases related to compensations had been stated as the reason for not adhering to that requirement in the reconciliation statement of the deposit account. However, adequate confirmations were not submitted to the Audit to the effect that court cases related to all the above balances were not concluded.
- One of the reasons for carrying forward this deposit balance in the general deposit account is the need to transfer to this account the dispute arbitration charges deposited by the societies for arbitration of disputes and the court fines recovered by the Courts of Arbitrations once such courts are enforced. The trials of dispute arbitrations have to be halfway suspended on various reasons. That money is not paid to the Arbitrator and since that money is not claimed by the society, it retained in this account.
- Action should be taken in accordance with Financial Regulations.

The failure of the officer in charge of the Department to take adequate measures to settle the matters, when fines have been sent with only the case number and without indicating the dispute arbitration number, has resulted in the court fines not being released to the societies.

3. Operating Review

3.1 Performance

3.1.1 Failure to Discharge Functions

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) According to the draft performance reports, out of 50 activities stated in the Action Plan in relation to 08 development projects implemented, 22 activities had not been implemented.	Due to the lack of officers to carry out the works in the Divisiuon, the number of implementable activities were limited.	Measures should be taken to implement plans.

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| (b) | Out of 270 activities stated in the Action Plan for 08 divisions of the Department, 97 activities had not been carried out. | Agreed. Activities have to be done with maximum possible effort based on the number of officers attached to the divisions and the crisis situation prevailing in the country. | Measures should be taken to implement plans. |
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3.2 Management Weaknesses

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Although the reasons for the difference between the total of the individual balance classification as per Annexure 05 of the Advance "B" Account and the balance of the departmental control account should be clarified, reasons for the difference of Rs. 160,598 had not been explained.	This is a balance continued to exist over a number of years and there is a difficulty to ascertain sources to settle it. However, action is being taken to settle the balance.	Action should be taken to prepare accounts in accordance with circulars.
(b) Among the loan balances due from the officers transferred to the ministries, there was a balance of Rs. 40,172 that remained overdue for 33 years, and the value of balances that remained outstanding over 32 years from two officers who transferred to the provincial council institutions was Rs. 47,353. As indicated in the Guideline No.01 issued relating to the Public Finance Circular No.01/2020 dated 28 August 2020, action had not been taken in terms of Sections 1.6, 1.7 and 6.3 of Chapter xxiv of the Establishments Code in respect of the loan balances of the officers who were left on transfers.	Action will be taken to settle the loan balances in the future.	Steps should be taken to recover the loan balances.

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| (c) | Two loan balances, including a balance of Rs. 19,262 and Rs. 40,650 that remained outstanding for 30 years and 23 years, respectively, from 02 transferred officers had been eliminated from the account during the year under review and the Treasury approval relating to that elimination had not been submitted to the Audit. | Upon the specific confirmation of the loan balances due from two officers, action has been taken to settle it. | Measures should be taken to settle the balances obtaining relevant approval. |
| (d) | A loan balance of Rs. 70,401 due from two interdicted officers remained outstanding for over 25 years and a loan balance of Rs. 48,720 due from an officer who vacated the service remained outstanding for over 41 years. Action in terms of Paragraph (e) in the Guideline issued in relation to Public Finance Circular No.01/2020 dated 28 August 2020 had not been taken regarding that matter. | Information of the relevant individuals is being ascertained. | Action should be taken to settle loan balances by complying with the circular. |

4. Achievement of Sustainable Development Goals

Audit Observation	Comment of the Accounting Officer	Recommendation
The sustainable goals to be achieved by the Department as per the National Budget Circular No.4/2018 dated 17 July 2018 had not been identified.	Sustainable development goals for the activities specified in the Action Plan had not been identified.	Action should be taken to identify sustainable development goals.

5. Good Governance

5.1 Internal Audit

Audit Observation	Comment of the Accounting Officer	Recommendation
An Internal Audit Unit had not been established in terms of provisions in Section 40 of the National Audit Act No.19 of 2018.	Although requests have been made to the Ministry of Public Administration, Provincial Council and Local Government to fill the vacancy of the post of Internal Auditor, an officer has not so far been attached to that post and it has also not been possible to fill vacancies under the expenditure management.	Action should be taken to establish an Internal Audit Unit.

6. Human Resource Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Six posts of the senior level , a post of Deputy Commissioner and 2 posts of the Assistant Commissioner of the Department remained vacant for more than a period of 05 years and the departmental post of the Deputy Commissioner, Internal Auditor and the post of Legal Officer remained vacant over a period of 03 years.	Appointments to the post of Deputy Commissioner and the Assistant Commissioner (Departmental) are made on grade promotions and there is no qualified officer within the staff of the Department for those posts. However, the approval of the Public Service Commission has been obtained to appoint the most senior officer to perform the duty of the Assistant Commissioner post. An officer has been appointed on 02.08.2021. Accordingly, that officer has obtained transfer on 08.02.2022. Currently, an officer, Grade II in the Sri Lanka Administrative Service has been appointed to act in the post of Assistant Commissioner. Although requests have been made to the Ministry of Public Administration to fill the vacancy of the post of Internal Auditor, so far no officer has been appointed. Despite the approval of the Public Service Commission being received on 27.06.2022 to make recruitment to the post of Legal Officer, it	Action should be taken to fill vacancies of the essential posts.

has not been possible to fill this vacancy upon the stoppage of the recruitments according to the National Budget Circular No.03/2022 related to the Circular No. BD/CBP/01/01/04-2022 dated 26.04.2022 of the Ministry of Finance.

- (b) The post of Translator, which is a secondary level post, has fallen vacant for more than a period of 05 years. Action has been taken to fill the vacancy by granting extension for the contract period up to 28.04.2023. Action should be taken to fill vacancies of the essential posts.