

## **Co-operative Development Fund – 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Cooperative Development Fund for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information 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 reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

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

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 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 intend 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 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 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- 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.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit Observations on the Preparation of Financial Statements

### 1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Due to the understatement of the income earned from contributions to be charged from 4 co-operative societies by Rs.6,639,767, the income and the value of contributions receivable had been understated by that amount.	It will be rectified in the year 2024.	Action should be taken to account accurately.
(b) Since the inception of the fund, income tax payments had not been made as scheduled or had not confirmed whether the Fund was an entity that was not subject to income tax of the Inland Revenue Department. Furthermore, the withholding tax amounting to Rs.3,621,548, which had been deducted from the interest earned for fixed deposits in the year 2023, had been indicated as receivables under current assets without obtaining the above confirmation.	The next steps will be taken according to the reply received from the Inland Revenue Department.	Arrangements should be made to account the accurate values.
(c) The expenses amounting to Rs. 1,430,057 payable for the International Co-operative Day celebrations held in the year 2023 had not been indicated in the financial statements.	Action will be taken in this regard to obtain the approval and to pay in terms of the Financial Regulations on specified confirmations in the future.	Action should be taken to account correctly.

### 1.5.2 Written Evidences not Made Available for Audit

Item	Amount Rs.	Audit Evidences not Provided	Comments of the Management	Recommendation
(i) Co-operative Society Loans	32,783,930	Balance Confirmations	Balance confirmations have been obtained from time to time through the	Action should be taken to obtain balance

			Provincial Commissioners under debt recovery procedures.	confirmations.
(ii) Unsettled Advances	45,526	Balance Confirmations	Unable to furnish balance confirmations due to the problem in finding information.	-Do-
(iii) Transferring to Surplus Fund.	20,000	Balance Confirmations	-Do-	-Do-
(iv) Provision of loans (Uva Province)	5,439,905	Balance Confirmations	-Do-	-Do-

### 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules and Regulations	Non compliance	Comments of the Management	Recommendation
a) The Co-operative Societies (Amendment) Act No. 32 of 1983			
(i) Section 43 (a).	The delay in the submission of accounts by 23 societies and associations as at 20 February 2024 had been from 2 years and 11 months to 04 months.	Twenty-three (23) societies and associations have not submitted accounts.	Action should be taken to present accounts as per the Act.
(ii) 1, 2 and 3 of part 43 (b)	Forty-six (46) societies and 07 associations, out of 55 registered cooperative societies and 16 associations for the year 2023 had not submitted budget documents.	Action should be taken to get budget estimates.	Action should be taken to present budget documents as per the Act.
(b) National Budget Circular No. 08/2022 dated 25 November 2022	A sum of Rs.4,367,955 had been spent for the Cooperative Day celebrations despite the circular instructions.	This expenditure has been incurred according to the budget estimates for the year 2023.	Action should be taken as per the circular instructions.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a surplus of Rs.259,555,617 and corresponding to that, the surplus of the previous year had been Rs.79,412,313. Accordingly, an improvement of Rs.180,143,304 was observed in the financial result. This improvement was mainly due to the increase in income earned from contributions by Rs.133,657,020 and investment interest income by Rs.45,600,799.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<b>(a) Co-operative Society Loans</b>		
(i) Only a sum of Rs.14,366 had been recovered as loan instalments in the year under review, out of the balance of the loan arrears totalling to Rs.33,478,262 comprised of Rs.30,461,782 to be received from 45 inactive societies as at 31 December of the year under review and a sum of Rs.3,016,480 to be received from two active societies and the interest amounting to Rs.8,608,138. There had been balances unrecovered for a period of 12 to 60 years within the loan and the interest, and any loan instalment had not been recovered from the loan amount of Rs. 8,080,900 provided to 15 inactive societies.	Co-operative Societies have been made aware constantly in order to recover these loans.	Action should be taken to recover the loan balances.
(ii) Action had not been taken to recover co-operative school loans amounting to Rs.2,666,000 that had been indicated under current assets as at 31 December in the year under review and prevailing from the year 1997, and performance advances amounting to Rs.1,838,512 prevailing even prior to the year 2012 and court compensation receivable amounting to Rs.882,175.	A committee has been appointed to look into the co-operative school loans and performance advances and court compensation receivable is being recovered monthly.	Action should be taken to recover the loan balances.
(iii) A loan amounting to Rs.3 million had been granted from the Fund to Kobeigane Multipurpose Cooperative Society Limited on 14 September 2012 to modernize the rice	The guidelines to be followed in obtaining loans have been prepared to prevent the	Provision of loans should be carried out systematically and arrangements

processing centre and to purchase machinery for rice production. The unrecovered loan balance of the loan agreement had been Rs.2,983,090. The interest related to that had been Rs.3,231,662 as at 31 December 2023 and therefore, the total amount had been Rs.6,214,752. In consulting the Attorney General in relation to the ability of recovering this loan amount, the Attorney General had informed to make arrangements to recover the loan arrears from the guarantee cover, if such guarantee cover had been transferred as per Conditions iii and iv of the agreement, the Fund had not obtained such a guarantee cover.

occurrence of such deficiencies in the future. should be made to recover the loans.

- (iv) The balance of contributions receivable by 31 December of the year under review had been Rs.216,749,648, and contributions amounting to Rs.159,194,344 should have to be recovered from the Education Employees Cooperative Thrift and Credit Society Limited and contributions amounting to Rs.17,767,353 should have to be recovered from the Public Service Cooperative Credit and Thrift Society Ltd. It was as high as 82 percent out of the total contribution.
- Creating awareness among the societies to recover the arrears of contributions from the co-operative societies will be done by the co-operative society supervisors. Arrangements should be made to recover the balances receivable without delay.

**(b) Revolving Fund**

Loans amounting to Rs. 674.5 million had been given from the revolving fund from the year 2010 to the year 2023.

- (i) A loan amounting to Rs.306 million had been given to 9 provincial co-operative societies from the Fund. Any amount, out of the instalments amounting to Rs. 9,626,500, receivable from the South and North Central provinces by 31 December 2023, the date of the report, had not been received.
- It has been informed that action is being taken to pay the loan arrears of the Southern Province and the legal department has been assigned the task of recovering the loans of the North Central Province. Arrangements should be made to recover the loan balances.
- (ii)The amount receivable by 31 December 2023 had been Rs.64 million out of the loan amounting to Rs.191 million provided to the cooperative consumer association in the years of 2011 and
- Even though the society has been made aware constantly, arrangements have not been made to Arrangements should be made to recover the loan balances.

2012. Even though the loan should be settled repay the related loans. within a month or two after taking the loan according to the loan agreements, action had not been taken to recover the loan although 11 years had passed.

(iii) A loan amounting to Rs.152.5 million had been provided to the Co-operative Wholesale Establishment in the year 2011. Only an amount of Rs. 60 million, out of that amount, had been recovered in the year 2012, and the loan balance to be recovered further as at 31 December 2023 had been Rs. 92.5 million. The letter dated 19.10.2023 has been forwarded and informed to pay the amounts expeditiously. Arrangements should be made to recover the loans.