

Co-operative Surplus Fund - 2023

1 Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Co-operative Surplus 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.

I do not express an opinion on the financial statements of the Fund. Because of the significance of the matters described in paragraph 1.5 of this 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

I expressed disclaimer of opinion based on the matters described in paragraph 1.5 of this report.

1.3 Responsibilities of Management and those related to the 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 Responsibilities 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 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Deficiencies

| Audit Observation | Comment of the Management | Recommendation |
|---|---|--|
| The income tax had not been paid from the inception of the Fund and the withholding tax of Rs. 396,847 from the year 2017 and Rs. 9,909,040 for the year 2023 on the interest received for the fixed deposit had been indicated as current assets without having confirmation from the Inland Revenue Department as a non-taxable entity. | A letter has been sent to the Inland Revenue Department in respect of solving the issues. | The actions should be taken to start accounting after having confirmation that it is not subjected to tax. |

1.5.2 Suspense Account

| Item | Amount Rs. | Period of suspense | Comment of the Management | Recommendation |
|---------------------|-----------------------|-------------------------------|---|---|
| Suspense Account | 9,475,735 | More than 11 years | The settlement has been delayed due to difficulties in finding out information. | The actions should be taken to identify and settle the balance. |

1.5.3 Lack of Documentary Evidence for Audit

| Item | Amount Rs. | Audit evidence not submitted | Comment of the Management | Recommendation |
|--|-----------------------|---|--|--|
| (a) Co-operative Society Loans receivable | 552,703,857 | Balance confirmations | The relevant societies have been informed to submit balance confirmations as at 31 December 2023 | The actions should be taken to obtain balance confirmations. |
| (b) Amount receivables from the Cooperative Fund | 5,029,486 | Balance confirmations | The actions are being taken to obtain the confirmations | -Do- |
| (c) Treasury Sub Loans receivable | 81,871,370 | Balance confirmations | The actions are being taken to obtain the confirmations | The actions should be taken to obtain balance confirmations. |

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|---|------------|--|---|---|
| (d) Treasury Fund payable | 150,000 | Detailed schedules | The Ministry has been consulted to remove the balances existing over a long period from the accounts. | The detailed schedules should be presented. |
| (e) National Trustee Fund payable | 3,871,256 | Detailed schedules | -Do- | -Do- |
| (f) General Deposit Account | 8,439,190 | Detailed schedules | The actions are being taken to obtain the confirmations | -Do- |
| (g) Fixed Deposit Security Creditors | 58,918,112 | Loan files and balance confirmations | There are problems of settlement due to the difficulty of finding. | The actions should be taken to present the balance confirmations. |
| (h) Winding up Accounts (Debit balance) | 2,620,473 | Copies of the Winding up Account prepared. | -Do- | -Do- |

1.6 Accounts Receivable and Payable

1.6.1 Money Receivables

| | Audit Observation | Comment of the Management | Recommendation |
|-----|--|--|--|
| (a) | According to the non-performing loan schedule, a sum of Rs. 87,986,525 was to be recovered as at 01 January 2023 out of the loan amounting to Rs. 125,131,173 granted to 69 cooperative societies during the period from 1989 to 2006, and Rs. 1,024,971 only had been received as the loan instalments of the year under review. Out of the loan interest of Rs. 102,215,361 to be received as at 01 January 2023, a sum of Rs. 497,630 only had been received. | The necessary procedures are being taken to re-register 06 types of loans. | The arrangements should be made to recover loan instalments and interests. |
| (b) | The actions had not been taken to settle the dishonoured cheques worth Rs. 1,721,566 which had been carried forward since the year 1999 under the miscellaneous assets. | The Department of Public Finance has been inquired in writing regarding the settlement of these balances. | The actions should be taken to settle the dishonoured cheques balance. |
| (c) | Only a sum of Rs. 11,184,856 had been received out of the loan interest of Rs. 221,235,967 receivable in the year under review. | This is a loan given prior to the year 2018 and the sum of Rs. 513,936,249 as at 01 January 2023 included the loan instalments to be recovered in the coming years also. | The actions should be taken to recover the loan interest. |

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|-----|--|---|---|
| (d) | An interest-free loan amount of Rs.15,587,000 to be paid off within 20 years had been given in the year 2007 to construct a building for a milk super sales shop and to start a sales shop giving priority to increase the local milk production. Although 16 years had passed since the loan was given, amount that had been recovered was Rs. 737,250, and the balance to be levied by 31 December 2023 was Rs. 14,849,750. | The initial stages of liquidating this company are under way and the further proceedings are made accordingly. | The actions should be taken to recover the loan amounts. |
| (e) | A sum of Rs.62,091,372 was to be recovered as at 31 December 2023 from the loan amount of Rs.75,000,000 given to the Buildings Materials Corporation in the year 2013, and the interest to be charged thereon was Rs.85,435,460. Even if 11 years had passed by 31 December 2023 since the loan was given, no actions had been taken to recover the amount. Further, a directive had been given at the meeting of the Committee on Public Accounts held on 05 August 2021 to refer the matter to the Cabinet of Ministers if the recovery of outstanding loan amount and interest cannot be done at Ministry level, and although 2 ½ years have passed, the actions have not been taken accordingly. | The Ministry of Urban Development and Housing and the Buildings Materials Corporation Ltd were continuously informed to recover the loan. | The actions should be taken to recover the loan amounts and implement the directives of the Committee on Public Accounts. |

1.6.2 Money Payables

| Audit Observation | Comment of the Management | Recommendation |
|---|--|--|
| (a) The balance of Rs. 6,017,551 that remained payable to the surplus fund and stated under the miscellaneous liabilities in the statement of financial position had not been settled from the year 1987. | The letters have been sent to the Ministry regarding the settlement of this balance. | The actions should be done to settle the balances payable. |
| (b) No action had been taken to settle the excessively recovered Rs. 196,201 existing from the year 2009 under the liability payable and the account transfer balance of Rs.100,000 continued from the year 2018. | Although a letter has been sent to the respective society to confirm the overpayment of Rs.196,201, no response has been received, and the actions will be taken to look for the details regarding the account transfer amount of Rs.100,000 and to settle it. | The actions should be done to settle the balances payable. |

1.7 Financial Management

| Audit Observation | Comment of the Management | Recommendation |
|--|---|--|
| The amount of the balance in hand had been retained in the range of Rs.6 million to Rs.5 million from June to December 2023, and the money had not been used in a productive investment. | Considering the cash balance in hand at the end of the month, the investments have been made in the following month, and the officers have been instructed to further strengthen the investments. | The actions should be taken to invest money effectively. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs.441,430,472 and the corresponding surplus of previous year was Rs.230,070,179. Accordingly, an increase of Rs. 211,360,293 was observed in the financial result. This growth had been mainly resulted from the increase in interest income by Rs.146,320,337 and the decrease in other expenses by Rs.63,853,913.

3. Operation Review

3.1 Management Inefficiencies

| Audit Observation | Comment of the Management | Recommendation |
|--|--|--|
| Even if the Act contains the provisions to provide loans only to the co-operative societies, an interest free loan of Rs. 13,969,497 had been granted in contrast thereto for the Co-operative Wholesale Establishment in the year 2012. | The institution has been informed by the letter dated 19 October 2023 to recover the debt. | The loan should be given as per the provisions of the Act. |