

Head 301- Department of Co-operative Development

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Head 301 - Department of Co-operative Development for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023, the statement of financial performance 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 (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 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 was issued to the Accounting Officer on 31 May 2024. Annual Detailed Management Audit Report related to the Department in terms of Section 11 (2) of the Audit Act was issued to the Accounting Officer on 09 July 2024. This Report is presented to the Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 2023, and of its financial performance and its 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 responsibilities, under financial statements are further described in the sentence of Auditor's Responsibilities. 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 on Financial Statements

The Accounting Officer is 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 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 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 skepticism 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 internal control.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- 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 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 Section 6 (1) (d) of the 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.

2. Financial Review

2.1 Expenditure Management

Audit Issue	Comments of the Accounting Officer	Recommendation
(a) As there were savings of total net provision for 03 expenditure objects and also 07 expenditure objects ranging from 30 to 92 per cent of net provision, it was observed that the estimates had not been prepared as realistically and accurately as	The limitation of expenditure according to the National Budget Circular 1/2023 has also led to the remaining of provisions and the	Estimates should be prepared realistically.

possible in terms of Financial Regulations 50. officials have been instructed to prepare estimates accurately for the year 2025 and to utilize the allocated provisions properly in the year 2024.

- (b) Six instances were observed where the reasons given were unacceptable for the savings in provisions and it was observed that the savings of provision for foreign travel expenses and highly increase of the allocations made for other expenditure objects as compared to the previous year were the reasons for the savings in provisions due to the incurring expenditures from the Co-operative Development Fund. The limitation of expenditure according to the National Budget Circular 1/2023 has also led to the savings of provisions and Officers have been instructed to prepare estimates accurately for the upcoming years. Estimates should be prepared realistically.

2.2 Entered into Commitments and Liabilities

Audit Issue	Comments of the Accounting Officer	Recommendation
(a) The liabilities related to 02 expenditure objects had been understated by Rs.171,608 in the statement of liabilities in the financial statement.	The officers have been instructed to present the financial statements accurately when preparing for the year 2024.	Financial statements should be accurately prepared.
(b) The savings of provision for an expenditure object was Rs.1,534,479 and thus the liabilities were Rs.1,642,997, the liability which exceeded the provision had been Rs.108,518.	Due to the increase of rates levied under the expenditure object 1403, the provisions have exceeded due to inadequacy of provisions made available.	It should not entered in to liabilities exceeding the provisions made available.

2.3 Utilization of funds provided by other Ministries and Departments

Audit Issue	Comments of the Accounting Officer	Recommendation
(a) When the distribution of 1249.5 metric tons of rice to 7917 schools under the second phase of the World Food Programme, the Sri Lanka Co-operative Marketing Association had been chosen to distribute		

from warehouses of the Food Department to the Multi Purpose Co-operative Societies in 09 Provinces and, distribution to schools was done by Multi Purpose Co-operative Societies. The following observations are made in this regard.

(i) Although a sum of Rs.18,712,125 had been paid for the distribution of 1,247,475 kg of rice for schools in 09 Provinces, the amount of rice distributed to Multi Purpose Co-operative Societies by the Marketing Association was only 1,233,225 kg. Traders Association has undertaken 1,249,450 kg of rice from the Food Commissioner's warehouses to distribute to the schools. A stock 1,233,255 kg was given to Multi Purpose Co-operative Societies to distribute within Provinces. Provisions should be efficiently utilized.

(ii) In addition to the above distribution expenditure, an additional cost of Rs.1,396,166 had been made to Provincial Multi Purpose Co-operative Societies as administrative expenses of Rs.800,000 for 08 Provinces and a sum of Rs.596,166 as the cost of delivery of rice to 03 main societies in the 03 Districts in the Central Province. According to the letters sent by the Provinces, administrative expenses have been given and the 03 societies with storage facilities named by the Central Provincial Co-operative Development Department have handed over to other Co-operative Societies for distribution of rice to schools. Provisions should be efficiently utilized.

(b) The Ministry of Education had entered into a Memorandum of Understanding on 22 December 2022 by handing over the Department of Co-operative Development to clear the second stock of 5000 metric tons of rice that grant by the People's Republic of China to the Government and unloaded at the Port of Colombo and to distribute it to schools. In this, after clearing an amount of 3000 metric tons of rice by entrusting to a private company to clearing process without calling public quotations, the Sri Lanka Shipping Corporation had been selected accordingly by publishing a public newspaper advertisement to clear the remaining 2000 metric tons. The following observations are made in this regard.

- (i) Although an amount of Rs.10,309,522 had been paid to that institution for the 3000 metric tons of rice cleared by the private company, thus the price offered by the institutions was Rs.9,038,960, a sum of Rs.1,270,562 had been overpaid .
- Only the labor cost and the container transportation cost is mentioned in the awarding letter and had not been awarded by providing quotation for other charges such as agent charges, custom documentation charges, the Department of Co-operative Development had to bear it and the payments are accurate accordingly.
- Actions should be taken according to quotation offered.
- (ii) Even though an amount of Rs.7,501,666 had been paid to Ceylon Shipping Corporation for the clearing of 2000 metric tons of rice, thus the price offered by the Corporation was Rs.6,051,300, a sum of Rs.1,450,366 had been paid in excess of that amount.
- The tender was awarded for Rs.5,262,000 and only that amount was paid. Other payments are the statutory payments to be paid by the Department and that amount was paid by the Ceylon Shipping Corporation Ltd. on behalf of the Department and reimbursed from us and the payment made is correct.
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- (c) According to the Decision of Cabinet of Ministers No. අම/22/1540/607/005-I dated 18 October 2022, the approval had been given to Co-operative Development Commissioner for the clearance and distribution of school uniforms received to the Ministry of Education under foreign aid and grants. The following observations are made regarding the clearance and distribution of them.
- (i) According to the Memorandum of Understanding entered between the Ministry of Education and the Department in respect of the clearance, an amount of Rs.8,600,000 had been received from the Ministry for the clearance of uniforms. Nevertheless, thus the actual cost was Rs.12,276,160 and a sum of Rs.3,676,160 had been overpaid, action had not been taken to get
- The Ministry of Education was informed in writing to get the approval for the excess expenses and that excess amount has not yet been paid.
- The overpayment should be recovered.

approval for the excess expenses and recover the overpaid amount from the Ministry of Education.

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| (ii) | Even though it had stipulated to complete the clearance of the stock of second batch of uniforms and to hand over to the warehouse on 19 March 2023, the Department had to pay an additional cost of Rs.1,890,700 due to delay in clearance by the Shipping Corporation. | An action can be taken to recover the additional cost of Rs.1,890,700 incurred after receiving the amount of Rs.6,879,066.55 further payable to the Shipping Corporation. | Actions should be taken to recover. |
| (iii) | The agreed estimate for storage and distribution of school uniforms was Rs.40 million and thus the actual cost incurred was Rs.41,930,750, an additional cost of Rs.1,930,750 had been incurred. The approval for the additional expenditure had not been obtained and although the additional expenditure had been requested from the Ministry of Education the Department had not received the amount. | The letters have been sent requesting approval for the additional expenditure of Rs.1,930,749.96. | Actions should be taken to recover. |

2.4 Deposits

Audit Issue	Comments of the Accounting Officer	Recommendation
The value of 105 deposit balances of the general deposit account relating to compensation payments as at 31 December 2023 was Rs.2,056,432. These balances were over a period from 08 years and, action had not been taken to take the balances older than 2 years into revenue in terms of Financial Regulation 571 and, even though it had been stated in the deposit account reconciliation statement that the reason for not doing so is the pending cases in the courts, there was no confirmation that the all those balances were pending cases.	Arrangements are being made to settle through the receipts available in the Accounts Division and the information of the societies.	Actions should be taken in accordance with Financial Regulations 571.

3. Operational Review

3.1 Planning

Audit Issue	Comments of the Accounting Officer	Recommendation
(a) Six projects in the Development Division had been removed from the Revised Action Plan and although 04 training programmes had been planned under the project for the Training Division, only two training programmes had been conducted in the year under review.	The provision for training opportunities to societies/associations has been removed from the Action Plan as the Expenditure Management Circular had instructed to spend only on essential training.	Actions should be taken to implement the plans.
(b) During the examination of progress according to the Action Plan 2023, the progress of the unimplemented projects had also been mentioned and it was not possible to clearly ascertain what activities were completed due to the number of activities to be done and number of activities achieved had been mentioned numerically when presenting the progress.	Due to a project done together with this Department, the Ministry of Education has presented its progress and actions will be taken to present the information in detail in 2024.	Actions should be taken to present the progress in detail.

3.2 Assets Management

Audit Issue	Comments of the Accounting Officer	Recommendation
The Mechanical Engineer had assessed all vehicles in the Department at a value of Rs.52,555,000 for the year 2022 and thus the value of the vehicles was Rs.37,025,000 according to the books of the Department, a difference of Rs.15,530,000 was observed and actions had not been taken to adjust the assessed value to the Department books.	There has been an increase in the assessed value of vehicles over the value mentioned in the books due to increase in value of vehicles.	Assessed value should be accounted.

3.3 Losses and Damages

Audit Issue	Comments of the Accounting Officer	Recommendation
Even though 04 vehicle accidents had occurred during the year under review, it had not been mentioned in the statement of losses and damages.	Agreed	Actions should be taken to record the vehicle accidents.

3.4 Management Inefficiencies

Audit Issue	Comments of the Accounting Officer	Recommendation
(a) The following observations are made regarding the dsirectives given and the matters to be focused in the Meeting of Committee on Public Accounts held on 05 August 2021.		
(i) Although an amount of Rs.5,920,186 had been spent for the work of starting a data bank to collect and update information related to financial service societies which was started in the year 2013, and also the attention of the Committee on Public Accounts was drawn to the fact that the Department does not have a relevant data system, action had not been taken to start the data bank even though 10 years had elapsed by December 2023.	Sri Lanka National Co-operative Board has been notified to implement the proposed computer networking programme to be suitable for all financial services co-operative societies in Sri Lanka and a pilot project in the first phase of this is being implemented for all rural bank branches of the Dambadeniya Multi Services Co-operative Society.	Action should be taken to start the data bank.
(ii) An expenditure of Rs.304,916 has been incurred to expand the scope of the cooperative included in the school textbook and a report had been prepared on 17 December 2021 identifying the subject areas to be included in each grade. Even though two years had elapsed since the report was prepared, thus those subject matters had not been included in the school syllabus by the date of audit, the amount of Rs.304,916 spent was observed as useless expenditure.	It has been decided to include in the textbooks whilst preparation of the new syllabus in the year 2023.	Expenses should be properly managed.

4. Good Governance

4.1 Internal Audit

Audit Issue	Comments of the Accounting Officer	Recommendation
An Internal Audit Unit had not been established in terms of Section 40 of the National Audit Act No.19 of 2018.	Although requests have been made to the Public Administration to appoint an Internal Auditor, an officer has not so far been nominated and an Internal Audit Unit has not been established due to shortage in existing staff.	Actions should be taken in terms of Audit Act.

