

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 2024 comprising the statement of financial position as at 31 December 2024 and 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 was issued to the Accounting Officer on 30 May 2025 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report pertaining to the Department was issued to the Accounting Officer on 13 August 2025 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 the Section 10 of the National Audit Act, No. 19 of 2018 to be read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, the financial statements give a true and fair view in all the material aspects of the financial position of the Department of Co-operative Development as at 31 December 2024, and its financial performance and cash flow in accordance with the basis of preparation of the financial statements set out in Note 1 to the financial statements.

1.2 Basis for Opinion

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 opinion.

1.3 Emphasis of Matter – Basis for preparing Financial Statements

The attention is drawn to the Note 1 related to the financial statements which describes the basis for preparing these financial statements. The financial statements have been prepared as per the Financial Regulation 150, 151 and the State Accounts Guideline No. 06/2024 dated 16 December 2024 amended on 21 February 2025 for the requirement of the Department of Co-operative Development, General Treasury and the Parliament. Consequently, these financial statements may not be suitable for other objectives. My report is intended only for the use of the Department of Co-operative Development, General Treasury and the Parliament of Sri Lanka. My opinion on this matter is not modified.

1.4 Responsibility of the Chief Accounting Officer and Accounting Officer on the Financial Statements

The Accounting Officer is responsible to prepare financial statements that give a true and fair view on all material aspects and to determine such internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error in accordance with the Government Financial Regulation 150, 151 and the State Accounts Guideline No. 06/2024 dated 16 December 2024 as amended on 21 February 2025.

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 accordingly make any necessary changes to keep the system maintaining efficiently.

1.5 Auditor's Responsibility on 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 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.
- Obtained 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 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 the 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.

2. Report on Other Legal Requirement

I express 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,

3. Financial Review

3.1 Expenditure Management

Audit issue	Comments of the Accounting Officer	Recommendation
Since savings ranging from 50 percent to 100 percent were observed in the revised budgetary allocations under 06 expenditure subjects, the estimates had not been prepared as adequately and accurately as possible in terms of Financial Regulation 50.	Instructions have been given to prepare realistic estimates as far as possible.	Action should be taken to prepare the estimates as accurately as possible.

3.2 Entering into liabilities and commitments

Audit issue	Comments of the Accounting Officer	Recommendation
(a) Commitments totaling Rs. 640,451 relating to 03 expenditure subjects had not been disclosed under commitments in the financial statements.	Instructions have been given to identify the commitments accurately and present them in the financial statements.	Commitments should be accurately identified and disclosed in the financial statements.
(b) Although the total savings of allocations under 03 expenditure subjects amounted to Rs. 204,413, the total commitments were Rs. 852,184, resulting in commitments exceeding the allocations by Rs. 647,771.	Attention has been drawn to the preparation of realistic estimates.	Action should be taken to prepare estimates realistically and accurately.

3.3 Utilization of Provisions provided by the Ministry

Audit issue	Comments of the Accounting Officer	Recommendation
A sum of Rs. 50 million had been granted to the Department by the Ministry of Trade, Commerce and Food Security on 09 April 2024 for the implementation of a project aimed at empowering small and medium scale entrepreneurs engaged in egg production by distributing one-day-old female chicks among selected egg producers at district level, as a solution to food security and the shortage of eggs. The following observations were made regarding the implementation of the said project.		
(a) Instead of selecting suppliers by following the procurement procedure, the Department had assigned the entire procurement responsibility to a cooperative society registered under the Department in relation to livestock production activities. The procurement process had not been carried out properly due to several shortcomings such as the society calling quotations only from nearby suppliers, selecting unsuitable suppliers, and failing to obtain confirmation from the Divisional Veterinary Surgeon regarding whether the chicks were of the required age and weight and whether the prescribed ratio of hens and cocks had been supplied. Furthermore, a sum of Rs. 4,126,500 had been paid to the society at the rate of Rs. 50 per chick and Rs. 500 per piglet.	A reply had not been furnished.	Although the project should have been implemented through a formal procurement procedure to achieve its objectives, an internal investigation should be conducted to determine the parties responsible for the failure to do so.
(b) Although the objective of the project “Empowerment of Small and Medium Scale Entrepreneurs Engaged in Egg Production at District Level” was to promote egg production, during the year under review, only 76,140 chicks had been distributed within 7 Divisional Secretariat Divisions, including 5 Divisional Secretariat Divisions in the	A reply had not been furnished.	An internal investigation should be conducted to identify the parties who acted contrary to the objectives of the project.

Gampaha District where chicks were distributed during the year 2023. Hence, the objective of the project had not been achieved. Furthermore, contrary to the objective of the project, a sum of Rs. 10,224,000 had been spent to purchase 639 piglets without proper approval, and they had been distributed among 320 beneficiaries.

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| (c) | Although it had been agreed to purchase 9,160 two-week-old chicks at a price of Rs. 450 each, due to the inability to distribute the chicks as scheduled, the supplier had to keep and feed them for two additional days. As a result, payment had been made for 9,160 three-week-old chicks at Rs. 600 each, leading to an overpayment of Rs. 1,374,000. | A reply had not been furnished. | The parties responsible for the failure to enter into a formal agreement regarding the supply should be identified. |
| (d) | Instead of the original signature documents of the project beneficiaries, certified photocopies by the society had been submitted, and there were instances where those documents had not been signed by the Divisional Secretary, Development Officer, and the beneficiaries. Copies of signature documents were available only for the receipt of 74,956 chicks by the beneficiaries, but the receipt of 1,184 chicks had not been confirmed. Furthermore, follow-up actions and reports related to the distribution of chicks and piglets had not been received even by 15 September 2025, and as a result, it was not possible to confirm the contribution of the project towards achieving its expected objectives. | A reply had not been furnished. | Follow-up reports of the project should be obtained without delay. Such projects should be implemented with a proper supervision and follow-up mechanism. |

3.4 Certification to be made by the Accounting Officer

Audit issue	Comments of the Accounting Officer	Recommendation
(a) The Chief Accounting Officer and the Accounting Officer should certify that the annual and other financial statements are prepared within the required timeframes. In addition, the Chief Accounting Officer is responsible for ensuring that the annual reports relating to the auditee entity are submitted to Parliament. However, as observed in paragraph 3.2 of the report, these requirements had not been fulfilled.	Action is being taken to submit the report for tabling in Parliament without delay.	Action should be taken to submit the annual reports in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018.
(b) Although the Chief Accounting Officer and the Accounting Officer should certify that an effective mechanism is in place for the proper implementation of internal audit functions, as observed in paragraph 4.1 of the report, this requirement had not been fulfilled.	The Ministry of Public Administration has been informed through the MISCO system as well as in writing, and action will be taken to establish an Internal Audit Division once the existing vacancies are filled.	Action should be taken to carry out the internal audit functions.

4 Operational Review

4.1 Non-achievement of the expected output level

Audit issue	Comments of the Accounting Officer	Recommendation
According to the Department's estimates, provisions amounting to Rs. 25 million had been allocated during the year under review for 06 projects under the Development Division; however, those projects had not been implemented.	The approval of the Secretary to the Ministry had not been received to implement the project, as per the decision of the Ministry on the departmental restructuring.	Provisions should be allocated for the approved projects after taking into consideration the practical conditions.

4.2 Annual Performance Report

Audit issue	Comments of the Accounting Officer	Recommendation
In terms of sub-section 47(4) of the State Finance Management Act No. 44 of 2024, the performance report should be submitted to Parliament for tabling within 180 days after the end of the financial year. However, the annual performance reports for the years 2023 and 2024 had not been submitted to Parliament for tabling even by 15 September 2025.	Action will be taken to table the performance report in Parliament without delay.	Action should be taken to table the performance reports for the years 2023 and 2024 in Parliament without delay, and this task should be completed before the due date in each year.

4.3 Assets Management

Audit issue	Comments of the Accounting Officer	Recommendation
Although the Department possessed 7 vehicles and 2 motor bicycles in running condition, 4 out of the 5 approved driver positions were vacant, resulting in the underutilization of these vehicles.	Action has been taken to update the MISCO system regarding the vacancies.	Action should be taken to fill the driver vacancies so that the vehicles can be utilized as required.

4.4 Security of Public Officers

Audit issue	Comments of the Accounting Officer	Recommendation
In terms of Financial Regulations 880 and 612, which are provisions under the Public Officers' Security Ordinance, the officers of the Department who are required to furnish security deposits had not been identified, and security deposits had not been obtained from such officers.	Action will be taken to obtain security deposits from the relevant officers.	Officers required to furnish security deposits should be identified, and necessary action should be taken to obtain them.

4.5 Management Weaknesses

Audit issue	Comments of the Accounting Officer	Recommendation
A loan balance of Rs. 203,775 recoverable from an officer who left the service on 16 May 2023 had not been recovered even as at 31 December of the year under review.	The balance of the distress loan is being recovered from the guarantors.	Action should be taken to recover the loan balance and interest receivable.

5 Good Governance

5.1 Internal audit

Audit issue	Comments of the Accounting Officer	Recommendation
In terms of Section 40(1) of the National Audit Act No. 19 of 2018, the Accounting Officer should appoint an Internal Auditor; however, action had not been taken accordingly.	The Ministry of Public Administration had been informed regarding the vacancy through the MISCO system as well as in writing.	Action should be taken to appoint an Internal Auditor and to carry out internal audits.

6. Human Resource Management

Audit issue	Comments of the Accounting Officer	Recommendation
(a) As at 31 December of the year under review, the approved cadre of the Department was 147, while the actual staff was 80, resulting in 67 vacancies.	The Ministry of Public Administration had been informed in writing and through the MISCO system regarding the existing vacancies.	Action should be taken to recruit officers for the essential positions.

- (b) Out of 62 posts of Cooperative Promotion Officers and Cooperative Development Officers, 26 posts had remained vacant, which had adversely affected the efficient functioning of the registered cooperative societies and associations.
- Recruitment for the posts of Cooperative Development Officers had been initiated; and, in accordance with the instructions received under the policy decisions of the Government, the said recruitment was suspended. Action will be taken to fill the vacancies after the staff review.
- Action should be taken to recruit officers for the essential positions.