

Co-operative Development Fund – 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Co-operative Development Fund for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 2024, 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.

1.2.1 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.

1.3 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.

1.4 Audit Observations on the Preparation of Financial Statements

1.4.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

	Non-Compliance with the reference to relevant Standard	Management Comment	Recommendation
(a)	In accordance with paragraph 70 of Sri Lanka Public Sector Accounting Standard No. 01 and the Financial Reporting Format, non-current assets, current assets, current liabilities and equity had not been presented in the statement of financial position in the order of liquidity. Further, according to paragraph 76 of the standard, one-year fixed deposits of Rs.1,344,682,397 and treasury bills of Rs. 155,327,276, which were expected to be realized within a year, should be mentioned under current assets. However, it had been mentioned under non-current assets.	Action will be taken to rectify this in preparing the financial statements for the year 2025.	Action should be taken to accurately present assets and liabilities in the financial statements in accordance with the Sri Lanka Public Sector Accounting Standards in order of liquidity.
(b)	As at 31 December of the year under review, the amount unrecoverable from loan interest of Rs.10,165,032 to be received for Co - operative Society loans of more than 10 to 25 years had not been identified, and provisions had not been made in this regard. Further, although non-recovering revenue should be recognized as expenditure in accordance with paragraph 38 of Sri Lanka Public Sector Accounting Standards No. 10, the interest write-off of Co-operative Society loans amounting to Rs. 231,663 had been deducted from revenue.	Action will be taken to rectify this in preparing the financial statements for the year 2025.	Action should be taken to identify and make provisions for the amount of unrecoverable loan interest and to present expenses in the financial statements in accordance with the Standards.

1.4.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Action had not been taken to recover a total of Rs.233,351,354 of the contributions due from 45 registered Co-operative Societies as at 31 December of the year under review, and out of this, unrecoverable amount from Rs. 6,216,725 due from	Written notices have been sent to the Societies/Associations on several occasions to recover the money due	Action should be taken to recover contributions due from Co-operative Societies and to

	08 Societies prior to the year 2019 had not been identified, and provisions had not been made in this regard.	from the Societies/Associations	identify the amount that cannot be recovered and make provisions.
(b)	Since the interest on loans receivable of Rs.3,603,184 relating to the year under review had not been accounted, the current assets and revolving fund balance had been understated by that amount.	The relevant interest amount was accounted through journal entry number 04/2025 in the year 2025.	Action should be taken to accurately account the income receivable.
(c)	Even though it is stated that the building in Kalmunai, in which the value was stated as Rs. 1 under fixed assets, was purchased in the year 1985, the information indicating its ownership and size was not submitted to the audit, and action had not been taken to assess and account the value.	Issues have arisen regarding the assessment of value due to the difficulty of finding information.	Action should be taken to confirm the ownership and assess the value of the building and account the same

1.5 Accounts Receivable

	Audit Issue	Management Comment	Recommendation
(a)	As at 31 December of the year under review, 4 receivable balances amounting to Rs. 6,590,950, which were outstanding for 12 years, under other current assets and the loan balances totalling Rs. 31,546,111, relating to 28 Societies for which a period of 12 to 59 years has elapsed, had not been recovered.	Action is being taken continuously to recover the loan.	As per Chapter XIII of the Co-operative Societies Act, action should be taken to recover the loan to be recovered in accordance with the provisions of the State Debtors Ordinance.
(b)	A Loan of Rs. 659 million had been provided from the revolving fund maintained under the fund from 2010 to 2024, which was initiated to provide loans for the purchase of essential goods. Due to non-recovery of loan instalments as per the agreement entered into with 04 Co-operative Societies, a total of Rs. 12,326,500 was outstanding as at 31 December of the year, and as at 30 April 2025, the outstanding instalment balance had increased to Rs. 18,153,000. Similarly, out of a loan amount of Rs. 191 million given to the Sri Lanka Consumer Co-operative Federation in the years of 2011 and 2012, Rs. 64,410,209 was still to be recovered as at 31 December 2024, and although according to the loan agreements, the loan should be settled within two months of obtaining the loan.	Action is being taken continuously to recover the loan, and it has been informed to take action to pay the money given to the Co-operative Wholesale Establishment through the Secretary of the Ministry.	As per Chapter XIII of the Co-operative Societies Act, action should be taken to recover the loan to be recovered in accordance with the provisions of the State Debtors Ordinance.

Although 12 years had lapsed, the loan balance and interest of Rs. 3,603,184 had not been recovered. Furthermore, out of a loan of Rs. 152.5 million given to the Co-operative Wholesale Establishment in the year 2011, Rs. 60 million had been recovered in the year 2012, and although the loan balance still to be recovered as at 31 December 2024 was Rs. 92.5 million, action had not been taken to recover it.

- | | | |
|--|--|--|
| <p>(c) The loan balance of Rs. 11,349,032 and the interest of Rs. 1,938,071 related thereto as at 31 December of the year under review had not been recovered from the loans provided to 14 Multi-Purpose Co-operative Societies from the Agricultural Produce Marketing Development Fund maintained under the Fund.</p> | <p>Action is being continuously taken to recover the loan by sending letters to the Provincial Commissioner of Co-operative Development and Registrar of Co-operative Societies and granting approval to pay the total loan and interest amount due in 60 instalments on the recommendation of the Commissioner of Co-operative Development and Registrar of Co-operative Societies.</p> | <p>As per Chapter XIII of the Co-operative Societies Act, action should be taken to recover the loan to be recovered in accordance with the provisions of the State Debtors Ordinance.</p> |
|--|--|--|

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

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Section 43(a)1 of the Co-operative Societies (Amendment) Act, No. 32 of 1983 and, the Co-operative Societies Rules No.39 of 1973 published in the Gazette Extraordinary No. 93/5 dated 10 January 1974	07 Societies and one Association had not submitted a single financial statement as at 31 December of the year under review, while 24 societies had not submitted 01, 02, 04, 17 and 14 financial statements respectively, which were due for submission from the year 2020 to year 2024. Further, 15 financial statements that had been submitted during the year under review had	The responsibility of obtaining financial statements from all cooperative societies has been assigned to one officer from 01.06.2025.	Action should be taken to obtain financial statements on the due date as per the provisions of the Act.

been submitted with a delay of 8 to 41 months.

- | | | | | |
|-----|--|--|--|--|
| (b) | Sections 2(1) and 102 of the Inland Revenue Act, No. 24 of 2017 | The Fund had not taken action to register for income tax or been exempted from tax liability | Withholding tax on investments was paid in accordance with the verbal instructions given by the Inland Revenue Department. | Action should be taken to register for income tax or to be exempted from tax liability as per the provisions of the Act. |
| (c) | Paragraph 3 of Part 1 of Public Finance Circular No. 1/2020 dated 28 August 2020 | Even though the value of money given as loans or advances can only be written off after granting proper written authority to waive it. The Co-operative school loan of Rs. 2,666,000 had been written off with the written approval of the Accounting Officer. | Action has been taken in accordance with the provisions of the Co-operative Societies Rules made under the Cooperative Societies Act No. 5 of 1972, and in accordance with the instructions given by the Department of Public Finance. | Approval of the relevant competent authority should be obtained to write off the loan as per the provisions of the Circular. |

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 154,568,953, and the corresponding surplus in the preceding year amounted Rs. 259,555,617. Accordingly, a deterioration amounting to Rs. 104,986,664 of the financial result was observed. The reasons for the deterioration were mainly due to a decrease in contribution income of Rs. 82,080,503 and investment interest income of Rs. 20,561,134.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) A loan of Rs. 3 million was provided to Kobeigane Multi-Purpose Co-operative Society Limited, on 14 September 2012 for the renovation of the rice processing center and the purchase of machinery for rice production. Even though the loan amount obtained was to be repaid within 54 months after a grace period of 06 months, the outstanding loan balance as at 31 December 2024 was Rs. 2,983,090. The	Legal action is currently being taken to recover the money.	As per Chapter XIII of the Co-operative Societies Act, action should be taken to recover the loan to be recovered in accordance with the provisions of the State Debtors Ordinance.

interest payable on it was Rs. 3,000,000, making the total amount receivable Rs. 5,983,090. The Fund had not obtained any guarantee in this regard, and even though 7 years had passed, the loan and interest could not be recovered.

- | | | |
|---|---|--|
| <p>(b) According to the Co-operative Societies Rules 41(i) of 1973, the audit of Co-operative Societies and Associations can be conducted by a Departmental Officer or by any Certified Accountant appointed by the Registrar. Accordingly, 13 Co-operative Societies and Associations had submitted 27 financial statements from the year 2017 to year 2024 to the Registrar. However, the audit had not been completed even though a period of between 08 and 27 months had elapsed as at 31 December 2024.</p> | <p>Delays occur due to the shortage of the Departmental officers attached to the audit of the Co-operative Societies/Associations and issues arising in conducting the audit.</p> | <p>Action should be taken to promptly complete the audit of the Societies in accordance with the provisions of the Co-operative Societies Rules.</p> |
|---|---|--|