

Co-operative Surplus Fund -2024

1. Financial Statement

1.1 Disclaimer of Opinion

The audit of the financial statements of the Co-operative Surplus 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 report to Parliament appear in this report.

I do not express an opinion on the accompanying 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 on the matters described in paragraph 1.5 of this report.

1.3 Responsibilities of management and Those Charged with Governance for the Financial Statement

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 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 Responsibility for the Audit of the Financial Statements

My responsibility is to issue an auditor's report on the financial statements of the Fund based on an audit conducted in accordance with Sri Lanka Auditing Standards. However, for the reasons described in the Basis for Disclaimer of Opinion section, I was unable to obtain sufficient 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
The statement of financial position had not been presented in order to liquidity as per paragraph 70 of Sri Lanka Public Sector Accounting Standards 01 and the financial reporting format. Furthermore, as per paragraph 76 of the standard, one year fixed deposits of Rs.2,585,000,000 and treasury bills of Rs. 173,500,000, which were expected to be available within one year, were presented under non-current assets, although they should have been presented under current assets.	The financial statements for the year 2025 are presented accurately.	Steps should be taken to present financial statements in the correct format in accordance with Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) The irrecoverable amount from loan interest of Rs. 210,808,907 due from Multi purpose co-operative societies/ federations as at 31 December of the year under review had not been identified and provision had not been made in this regard.	The financial statements for the year 2025 are presented accurately.	Receivables should be analysed and provision should be made for uncollectible balances.
(b) As of 31 December 2024, the work in progress and accumulated balance were understated amounting to Rs. 39,244,389 due to the fact that advances of Rs. 14,841,000 paid in 2022 were accounted as expenses. Additional information had not been disclosed in accordance with paragraph 127(c) of Sri Lanka Public Sector Accounting Standards No. 01 regarding work in progress amounting to Rs. 24,403,389, which was presented under non-current assets in the statement of financial position.	Agreed	Transactions should be recorded accurately. Information that must be disclosed according to the standard should be disclosed.

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements (Rs.)	As per correspon ding Record (Rs.)	Difference (Rs.)	Management Comment	Recommendation
Co-operative society loans receivable	71,751,576	61,829,069	9,922,507	Action will be taken to investigate the relevant information and resolve.	Action should be taken to identify and resolve differences between accounts and reports.

1.5.4 Documentary Evidence not made available for Audit

	Item	Amount (Rs.)	Evidence not available	Management Comment	Recommendation
(a)	Co-operative society loans receivable	41,234,343	Balance confirmations	Although it has been referred to provincial departments, only 05 provinces have provided the balance confirmations.	All balances should be confirmed.
(b)	Liquidation account (debit) balance	2,620,473	Copy of the prepared liquidation account	As this balance were existed from the year 1998, the details will be investigated and submitted quickly.	The relevant liquidation account should be submitted for audit.
(c)	Loans secured by Fixed Deposits	58,918,112	Details of pledged fixed deposits, their current status, loan files and balance confirmation letters	Details will be investigated and submitted promptly.	Relevant information should be submitted to the audit promptly.
(d)	General Deposit Account	8,469,164	Detailed schedules	The legal department is preparing a age analysis.	Detailed schedules relating to the account balance should be submitted to the audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	Action had not been taken to recover the interest receivable of Rs. 81,871,370 on the administrative loan given to the Treasury in the year 2000, which was stated as Treasury sub Loan Receivable.	Although the information available in the Department has been submitted to the Treasury Operations Department, there has been no response to date.	Action should be taken to recover the interest due.
(b)	According to the Non-Performing Loan Schedule, out of the total loan amount of Rs. 122,816,173 provided to 41 co-operative societies on 55 occasions from 1989 to 2006, only Rs. 5,198,359 had been collected as loan instalments during the year under review, out of the balance of Rs. 86,921,553 that was due as of 01 January 2024. further , out of the loan interest of Rs. 101,329,332 due as on 01 January 2024, only Rs. 650,901 had been received during the year under review. Accordingly, although a period of between 18 and 35 years had elapsed since the loan was granted, the loan balance of Rs. 81,723,194 and the interest of Rs. 90,658,863 that was due had not been recovered during the year under review.	Debt collection activities are ongoing.	Collection activities of debt balances and interest should be regularized and expedited to recover the balances due.
(c)	According to the active loan schedules, the loans granted to 20 co-operative societies from the year 2001 to year 2023 amounted to Rs. 438,010,100 and the interest amounting to Rs. 210,808,907 had not been recovered even though a period of between 23 and 1 year had elapsed since the loans were granted.	Debt collection activities are ongoing continuously.	Collection activities of debt balances and interest should be regularized and expedited to recover the balances due.
(d)	The loan of Rs. 75,000,000 granted to the Building Materials Corporation in the year 2013, Rs. 62,091,372 and interest of Rs. 95,370,079 were due as of 31 December 2024 and 12 years have passed since the loan was granted, no steps have been taken to recover the outstanding amount. Furthermore, although the Public Accounts	The corporation is scheduled to be called to discuss debt collection.	Actions should be taken to either expedite the recovery of due balance or recover the balance receivable by submitting them to the Cabinet of Ministers as per the directives of the

Committee held on 05 August 2021 had ordered that if the recovery of the outstanding loan amount and interest cannot be done at the ministry level, it should be referred to the Cabinet of Ministers, almost 4 years have passed and no action has been taken accordingly.

Committee on Public Accounts if necessary.

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| (e) | A sum of Rs. 15,587,000 was granted in the year 2007 as an interest-free loan, repayable within 20 years, to a cooperative society for the establishment of a milk supermarket and the construction of a building, with priority given to increasing local milk production. Although 17 years had elapsed since the disbursement of the loan, only Rs. 757,250 had been recovered. Accordingly, an outstanding balance of Rs. 14,849,750 remained recoverable as at 31 December 2024. | Since it is a liquidated. society, the relevant amount is scheduled to be recovered upon liquidation. | The loan amount should be recovered either at the time of liquidation or through an appropriate action. |
| (f) | Although a sum of Rs. 5,000,000 has been classified as a project loan under receivables in the financial statements since 2008, the parties from whom the amount is recoverable have not been identified and action had not been taken to settled. | It was stated that details are being examined. | Action should be taken to identify the parties from whom the amount is recoverable and to settle the balance. |

1.7 Non-Compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Paragraph 3 of Section 1 of State Finance Circular No. 01/2020 dated 28 August 2020.	Although amounts granted as loans or advances can be written off only with the written authorization of the appropriate authority and on the written approval of the Accounting Officer, 12 receivable balances total of Rs. 30,439,560 had been written off. However, adequate evidence was not	In accordance with State Finance Circular No. 01/2020, when approval for write-offs was sought, written instructions had been given to act in line with the powers vested by law in the Commissioner of Cooperative Development and the Registrar of Societies, and the relevant	According to Chapter XIII of the Co-operative Societies Act, recovery of outstanding loans should be carried out in accordance with the provisions of the Debt Recovery Ordinance.

presented to confirm that all entries had been made possible efforts and legal accordingly. actions had been taken to recover these balances. Further, four payable balances amounting to Rs.10,235,008, outstanding for periods ranging from 15 to 37 years, had also been removed from the accounts without proper authority.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 328,111,111 and the corresponding surplus in the preceding year amounted to Rs. 431,521,433 . Therefore an deterioration amounting to Rs. 103,410,322 of the financial result was observed. The reasons for the deterioration was mainly due to a decrease in fixed deposit interest income of Rs. 163,104,562.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) For the investment of Rs. 1,076 million in fixed deposits, a state bank had quoted an interest rate of 9 per cent as at 11 June 2024. However, due to a delay of two days in making the investment, the interest rate had declined to 8.6 per cent, resulting in a loss of interest income amounting to Rs. 2,370,147 to the Fund.	Since the interest rates offered by the system for automatic renewal of these investments at maturity were lower, the fixed deposits were cancelled at maturity and reinvested after calling for quotations. Accordingly, a higher rate had been obtained for the investments maintained in the state bank, while lower rates had been received for the balances maintained in other banks. As this was a policy decision of the banks, it had to be accepted.	Funds should be invested in a manner that ensures maximum benefit, and an internal investigation should be carried out to identify the parties responsible for the loss incurred and to take necessary action.
(b) Although provisions under Rule No. 44 (iii) (d) of the Co-operative Societies Rules of 1973 stipulate that loans may be granted only to co-operative societies, contrary to this, interest-free loans of Rs. 13,969,497	The Co-operative Wholesale Establishment had been continuously informed through letters and also through the Ministry to settle the loan.	Action should be taken in compliance with the Co-operative Societies regulations, and the outstanding loan balances

in the year 2012 and Rs. 25,000,000 in the year 2014 had been granted to the Co-operative Wholesale Establishment and the National Co-operative Development Institution, respectively. By the end of the year under review, more than 10 years had elapsed, yet no loan repayments had been made by the Co-operative Wholesale Establishment, while only Rs. 6,000,000 had been recovered from the National Co-operative Development Institution.

should be recovered without delay.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) In terms of Sections 49 and 50 (a) and (b) of the Co-operative Societies Act No. 5 of 1972, as amended by Acts No. 32 of 1983 and No. 11 of 1992, three registered co-operative societies had failed to submit financial statements for audit from the very first year of their registration. The current operational status of those societies had not been examined, nor had a determination been made as to whether their registration should be cancelled. Further, in terms of Section 50(a) of the said Act, as at 31 December 2024, six societies which had already submitted their final reports for cancellation of registration, after lapses of periods ranging between 05 and 23 months, had not yet been cancel the registration.	It was stated that an issue relating to the takeover of assets of one society has been prevailing for a long period, and that the other societies have been informed to submit their accounts. It was further stated that, if they fail to do so, the matter will be referred to the Legal Division for legal action in the future.	The operational status of the societies should be examined, and action should be taken in compliance with the provisions of the Act.
(b) Although 16 years had elapsed since the cancellation of a co-operative society, a liquidator had not been appointed. Further, in respect of 13 co-operative societies where liquidation activities had been completed and three months had lapsed thereafter, in terms of Section 57(3) of the aforesaid Act, the surplus remaining after settlement of claims could either be utilized for a regional or public purpose or deposited in the surplus fund. However, it could not be confirmed that such action had been taken accordingly.	It was stated that the shortage of officers had become a major issue due to the non-recruitment of new officers, and that in respect of one of the 13 liquidated co-operative societies where a surplus remained, the funds had been transferred to the Co-operative Surplus Fund.	Management decisions relating to liquidation should be carried out efficiently, and updated records should be maintained to confirm that the relevant activities of the liquidated societies have been duly completed.