

Co-operative Development Fund of the Department of Co-operatives - 2013.

The audit of financial statements of the Co-operative Development Fund of the Department of Co-operatives for the year ended 31 December 2013, comprising the balance sheet as at 31 December 2013 and the income and expenditure statement and cash flow statement for the year then ended and the summary of significant accounting policies and other explanatory 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. My comments and observations which I consider should be published with the Annual Report of the Fund appear in this report.

1.2 Management's Responsibility for Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial Statements that are free from material misstatements whether due to fraud or error.

1:3 Auditor's Responsibility

My Responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessment the auditor considers internal control relevant to the Fund's preparation and fair presentation of financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements .

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 **Basis for the Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. **Financial Statements**

2:1 **Opinion**

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Co-operative Development Fund of the Department of Co-operatives as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 **Comment on Financial Statements**

2.2.1 **Sri Lanka Public Sector Accounting Standards**

The following observations are made.

- (a) Even though, while preparation of the cash flow statements in accordance with Sri Lanka Public Sector Accounting Standard 2 , purchase of fixed assets amounting to Rs.1,596,142 and reduction of aids and funds amounting to Rs.166,411 should be shown under the investment activities, they had been shown under operating activities.
- (b) Provisions for doubtful debts amounting to Rs.10,344,030 adjusted in the year under review had not been shown as an item, not affective to the cash movement in the preparation of cash flow statement.

2.2.2 **Accounting Deficiencies**

The following observations are made.

- (a) Action had not been taken to revalue motor vehicles costing Rs.3,295,000 and a building valued at Rs. 350,000 which had been fully depreciated but are being used at present in order to show its fair value.
- (b) Adequate provision had not been made for the debts Rs.21,716,000 which continued to be brought forward in the financial statements for a period ranging from 7 to 18 years though there was an uncertainty in recovering those amounts.

2.2.3 Unreconciled Control Accounts

According to the financial statements presented, a difference aggregating Rs.24,827,350 was observed in the reconciliation of 2 balances of assets with the balances appeared in the relevant schedule .

2.2.4 Lack of Evidence for Audit

Evidence indicated against the following each item had not been furnished to audit.

Description of Accounts -----	Value ----- Rs.	Documentary Evidence not made available to Audit -----
(a) Co-operative Society Loans	14,056,728	} Confirmation of Balances, Age Analysis
(b) Agriculture Fund Society Loans	9,482,737	
(c) Co-operative School Loans	2,666,000	
(d) Loans for lorries granted to co- operative societies of North East	19,050,000	} Detailed schedule
(e) Agriculture Fund Balances	3,001,000	

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to identify the debtors in relation to the dishonoured cheques aggregating Rs.2,411,653 shown under current assets since the year 2008 and to recover this money.
- (b) Action had not been taken to recover since the period of 4 years to 5 years the Performance Advance and Court compensations receivable aggregating Rs.3,183,600 shown under the current assets in the balance sheet as at 31 December of the year under review.
- (c) Action had not been taken to settle the 07 creditors balances aggregating Rs.48,545,999 existed since the period of 05 years to 08 years .
- (d) The balance receivable from the Government Account amounting to Rs.180,395 which had been brought forwarded from the year 2012 had not been recovered even as at the end of the year under review.

- (e) Action had not been taken to recover the contributions of Rs.3,969,799 recoverable from 9 Co-operative Societies and associations for a period ranging from 2 to 7 years even by 31 December in the year under review.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 188(2)	Action had not been taken in terms of the financial regulation even by 31 December 2013 in respect of 2 cheques totalling Rs.300,000 deposited and remaining unrealized relating to the year 2011 and the year under review.
(ii) Financial Regulation 169(2)	A proper investigation had not been taken in terms of the financial regulation in respect of a money order totalling Rs.55,809 deposited but remaining unrealized relating to the year 2011 .
(iii) Financial Regulation 396	Action had not been taken in terms of the financial regulation even by 31 December 2013 in respect of 4 cheques lapsed for more than 6 months totalling Rs.46,650 issued in 2010 and during the year under review but not presented to the bank.
(b) Treasury Circular No.842 dated 19 December 1978	A Register of Fixed Assets had not been maintained.
(c) Public Finance Circular No.423 of 22 December 2006	
(i) Section 4.1	The approval of the Director General of National Budget had not been obtained for the annual budget of the year under review.
(ii) Section 4.2	Even though a separate Bank Accounts and the books of the Fund are maintained, those accounts should be regularly reconciled and quarterly progress should be furnished to the

Director General of Public Finance, it had not been so done.

(iii) Section 4.3

A Statement of Changes in the Accumulated Fund for the year under review had not been presented to the Auditor General with a copy to the Director General of Public Finance within 02 months after the close of the year of accounts.

(d) Public Enterprises Circular
No.PED/25 dated 29 July 2004

Surplus Fund totalling Rs.289,632,607 had been invested in the year under review without obtaining the approval of the relevant Minister.

3. **Financial Review**

3.1 **Financial Results**

According to the financial statements presented, the operations of the Fund for the year under review had resulted in a surplus of Rs.4,699,969 as compared with the corresponding surplus of Rs.20,956,651 for the preceding year thus indicating a deterioration of Rs. 16,256,682 in the financial result of the year under review as compared with the preceding year. The decrease in sundry income and income from contributions amounting to Rs.5,439,392 and Rs.9,251,693 respectively and the increase in foreign travel expenditure and other expenditure by Rs. 2,087,230 and Rs.6,780,330 respectively had mainly attributed to the deterioration in the financial result.

4. **Operating Review**

4.1 **Management Inefficiencies**

The following observations are made.

- (a) The balance of the Bank Current Account of the Fund had been maintained from the balance of Rs.4 million to Rs.100 million in each month. Action had not been taken to invest this money to get an interest income by identifying the surplus money.
- (b) Action had not been taken to settle even by 31 December in the year under review, 05 unidentified credit balances aggregating Rs.141,543 existing for a long period.

4.2 **Transactions of Contentious Nature**

The following observations are made.

- (a) The expenditure of Rs.159,900,000 had been spent in the years 2011 and 2012 on behalf of the “Isuru Saviya” National Co-operative Day commemorative celebrations held in 2011 and a sum of Rs.7,886,880 had been paid to the Sri Lanka National Co-operative Board for the activities of this ceremony as well. Further, the budget estimate and particulars of the proposed programmes had not been furnished to audit. The Commissioner of Co-operatives informed that the information thereon was not available in the Department.
- (b) According to Rule 43(1) of the Rules made under Section 61 of the Co-operatives Act, No.5 of 1972, the monies of the Fund can be utilized for objectives such as Co-operative Education, propagation of Projects, improvement of the management efficiency of the Co-operatives, assisting Co-operative Societies, etc. Nevertheless, a sum of Rs.1,724,912 had been spent from the Fund in the year under review for 02 activities deviating from those objectives .

5. **Accountability and Good Governance**

5.1 **Presentation of Financial Statements**

The financial statements of 2013 should be presented before 28 February 2014 in terms of Paragraph 4.3 of the Public Finance Circular No.PF 423 dated 22 December 2006. However, the Department had presented the financial statements on 20 March 2014 and those financial statements had been returned to the Department on 15 July 2014. Those financial statements had been re-submitted on 17 March 2015 ,after a delay of 08 months.

5.2 **Budgetary Control**

Over estimation of income by 64.26 was observed as the actual total income had been Rs.36,422,166 whereas the estimated total income aggregated to Rs.101,920,000.

5.3 **Internal Audit**

The internal Audit unit of the Line Ministry had prepared an audit programme for the Fund. However, the internal audit queries or reports prepared accordingly had not been presented to the Auditor General even by end of the year under review

6. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Assets Administration
- (c) Collection of Contributions
- (d) Recovery of Loans
- (e) Budgetary Control