

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

The audit of financial statements of the Co-operative Surplus Fund of the Department of Co-operative Development for the year ended 31 December 2013, comprising the balance sheet as at 31 December 2013 and the income 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 those 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 judgement, 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 Qualified 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 Surplus Fund 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 Accounting Deficiencies

The following observations are made.

- (a) The depreciation of 23 items of assets in respect of the year under review had been over stated by Rs.84,101 due to the computing errors.
- (b) Necessary adjustments had not been made even by 28 February 2015, the date of audit with regard to 9 direct credits included in a bank account aggregating Rs.237,482 during the years 2010 and 2011 and the receipts of 2 loan balances aggregating Rs.805,634, having being identified.

2.2.2 Unreconciled Control Accounts

According to the financial statements presented, unreconciled differences aggregating Rs.260,606,703 between the balances of 3 items of assets and the related schedules were observed.

2.2.3 Suspense Accounts

Action had not been taken even during the year under review to settle the balance of the Suspense Account amounting to Rs.9,475,735 continued to be brought forwarded in the financial statements .

2.3 Accounts Receivable and Payable

Action had not been taken even by the end of the year under review to settle the 02 over recoveries amounting to Rs.375,504 continued to be brought forwarded for many years and dishonoured cheques amounting to Rs.1,716,566 and 05 liability balances amounting to Rs.10,221,723.

2.4 Lack of Evidence for Audit

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

Item	Value	Evidence not made available
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	Rs.	
(a) Co-operative Societies Loans	560,194,930	Letters of confirmation of balances and schedules .
(b) Project Loans	5,000,000	-Do-

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

The following non compliances were observed.

Reference to Laws, Rules, Regulations etc.,	Non -compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

(i) Financial Regulation 395(b)	Although the monthly bank reconciliation statements should be furnished to the Auditor General before the 15 th of the ensuing month, action had not been taken accordingly.
(ii) Financial Regulation 396	Action had not been taken even by 28 February 2015 with regard to 6 cheques valued at Rs.80,867 issued in 2013 and preceding years but not presented for payments.
(b) Public Finance Circular No.PF/423 dated 22 December 2006	

(i) Paragraph 4.3	Although the performance report for the year under review together with the statement showing the variances of the accumulated fund should be forwarded to the Auditor General with a copy to the Director General of Public Finance within 2 months of the closure of the financial year, action had not been taken accordingly.

2.6 Transactions without Adequate Authority

According to Section 44(iii) of the Gazette Notification No.93/5 dated 10 January 1974 of the Republic of Sri Lanka, the funds of the Surplus Fund should only be used to purchase shares of the primary co-operative societies, to purchase fixed assets, to render assistance to the liquidator for relief against cases instituted against him and to give assistance for the registered co-operative societies. However, a sum totalling of Rs.95,174,250 had been spent for 3 activities contrary to such functions.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating activities of the Fund for the year under review was a surplus of Rs.27,722,806 as compared with the surplus of Rs.33,360,994 of the previous year. Thus a deterioration of Rs.5,638,188 was observed in the financial results. Increase in payment of pledged loan interest against fixed deposits by Rs.60,851,569 had mainly attributed to this deterioration.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) The Co-operative Societies loan balance recoverable as at 31 December 2013 amounted to Rs.647,215,868 and 14.8 per cent or Rs.95,785,091 of that loan had remained in a dormant condition while those balances had been over 05 years. Similarly, a sum of Rs.41,905,020 had exceeded 05 years ,out of the active loan balance of Rs.551,430,777.
- (b) The balance of the bank current account of the Fund during the year under review had been over Rs.2 million in each month and attention had not been paid to make a fruitful investment of the balance of that account as to receive an interest income by forecasting the monthly average expenditure .
- (c) Fixed deposits belonging to the Co-operative Surplus Fund had been pledged as a security for obtaining a loan of Rs.130 million for 2 co-operative societies from a state bank during the year 2004 and 2008. Nevertheless, those co-operative societies had defaulted the re payment of loans obtained by the Fund and as a result a sum of Rs.66.4 million had been set off from the fixed deposits of the Surplus Fund . Action had not been taken by the Department to recover the said money from the relevant Societies.
- (d) Action had not been taken even by 31 December in the year under review for the recovery of Rs.5,000,000 granted for a Co-operative Society as Project loans from the Surplus Fund in the year 2008.

4.2 Transactions of Contentious Nature

The following observations are made.

- (a) Distress loans and motor cycle loans had been paid to 27 officers of the Department of Co-operative Development contravening the objectives of the establishment of the Fund. Of those loans, balances of Rs.31,412 and Rs.200,629 respectively remained unrecovered as at 31 December 2013.
- (b) A loan amounting to Rs.17 million had been granted without a security in the year under review to a Co-operative Society for the construction of a filling station. The freehold ownership of the land in which the filling station was constructed had not been vested to the Society and the value of the construction had been certified as Rs.8,150,379 by a civil engineer of the Ceylon Petroleum Corporation. Therefore, it was observed that the purpose of utilization of the balance value amounting to Rs.8,849,621 out of the loan granted had been a matter of contentious. It was problematic in audit that granting of Rs.17 million without a surety to a Co-operative Society under such a circumstance.
- (c) Approval had been given to grant a loan by the Finance Committee of Rs.75 million for a State Corporation under the Line Ministry on 08 May 2013 subject to settle the loan within the period of 06 months and to keep securities for the loans and entering into a proper agreement in respect of loans .However, contrary to that the relevant loan had been granted without entering into a loan agreement or keeping a security.
- (d) A loan amounting to Rs.150 million had been granted to a Co-operative Society in the previous year and in the year under review for the construction of a hospital. The ownership of the land relevant to the construction of the hospital had not been acquired to the Society even as at 31 December 2013 and the construction works had been done deviating the Procurement Procedure. Even though ,construction of the hospital had been planned with 05 stories, it had been reduced to 02 stories. Subsequently, but the estimated amount had not been decreased .The Society had faced critical conditions such as a member of the Society had filed a case against the relevant construction work asking for an injunction order by stating that the said Society was subjected to collapse due to the above construction and the general meeting of the Society had been postponed indefinitely. However, the loan had been released by the Fund without considering the those issues . Further, a doctor had been improperly appointed as the consultant for this Project and a sum of Rs.1,157,000 had been paid from the Fund from February 2012 to December 2013 as his salaries and allowances .
- (e) A sum of Rs.11,749,500 from the Surplus Fund had been granted to a school co-operative society as a financial assistance in the year under review for a contract of the construction of a swimming pool without the supervision of the Provincial Commissioner of Co-operative and contrary to the Procurement procedure.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The financial statements of the year under review 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, after pointed out the deficiencies appeared in the financial statements presented to the audit on 21 March 2014 by the Fund, the said financial statements had been returned to the Department on 31 July 2014. The revised financial statements had been presented on 17 March 2015, that is with a delay of about 07 months.

5.2 Internal Audit

The audit programme for the Surplus Fund had been prepared by the internal audit unit of the Ministry of Co-operative and Internal Trade. However, the reports of the internal audit carried out accordingly had not been furnished to 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) Recovery of Loans
- (d) Loan assistance to Co-operative Societies
- (e) Utilization of Funds