

Co-operative Development Fund -2011

1. Financial Statements

1.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 1.2.5 of this report I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

1.2 Comments on Financial Statements

1.2.1 Accounting Standards

Even though a cash flow statement should be presented with the financial statements, a fund flow statement had been presented.

1.2.2 Accounting Deficiencies

The following observations are made.

- (a) Action had not been taken to revalue 02 motor vehicles and a building shown at the net value of Rs.1 in the financial statements which are being used at present and include such value in the financial statements.
- (b) Out of the balance of the loans of Co-operative Societies as at 01 January 2011 amounted to Rs.22,353,168, a sum of Rs.1,307,700 or 5.85 per cent only had been recovered during the year under review. As such a sum of Rs.21,045,468 or 94.15 per cent remained recoverable as at 31 December 2011. Even though a sum of Rs.21,024,451 or 99.90 per cent out of that had been non-performing loans as at that date, provision for bad debts for that had not been made in the financial statements.

1.2.3 Unreconciled Control Accounts

The balances of Control Accounts according to the financial statements presented did not reconcile with the balances of their schedules in certain instances. Details appear below.

Item	Balance According to Financial Statements	Balance According to the Schedules	Difference
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	Rs.	Rs.	Rs.
Co-operative Societies Loans	11,560,104	32,410,025	20,849,921
Agri Products Marketing Development Fund	9,482,737	12,860,953	3,378,216
Interest Receivable on Co-operative Societies Loans	6,204,534	5,605,321	599,213

1.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Three Assets Accounts totalling Rs.23,715,600 and 05 Liabilities Accounts totalling Rs.48,466,027 had been brought forward in the financial statements over periods of 03 to 06 years without being recovered or settled. Action had not been taken even by the end of the year under review for the settlement of those balances.
- (b) Action had not been taken even up to the end of the year under review for the settlement of dishonoured cheques valued at Rs.2,411,653 which had been brought forward in the financial statements over a number of years.

1.2.5 Lack of Evidence for Audit

The following items could not be satisfactorily vouched or verified in audit due to the non-submission of the evidence indicated against each item.

Particulars of Accounts	Value	Evidence not made available to Audit
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	Rs.	
(a) Property, Plant and Equipment	7,478,705	Boards of Survey Reports and Register of Assets
(b) Co-operative Societies Loans	11,560,104	} Confirmation of Balances and Age Analysis
(c) Agri Funds Co-operative Societies Loans	9,482,737	
(d) Co-operative School Loans	2,666,000	
(e) Lorry Loans granted to the Co-operative Societies in the North and East	19,050,000	
(f) Isuru Saviya Cooperative Day Celebration	159,900,000	Details of Expenditure

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Value	Non-compliance
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	Rs.	
(a) Circular No.PED/57 of 11 February 2011 Paragraph 4	-	Even though the publicity expenses of the Fund should be less than 5 per cent of the total budgeted operating cost, the publicity expenses of the Fund according to the revised budget of the year amounted to Rs.22,000,000 and that represented 55 per cent of the total operating cost.
Paragraph 8	1,939,052	According to the Circular, transactions should be handled with the Government Media Institutions for the procurement of the lowest prices for trade advertisements, the advertisements published by the Fund in connection with the Co-op City and the Deyata Kirula Exhibition had been given to two private media institutions at a cost of Rs.1,939,052.
(b) Treasury Circular No.842 of 19 December 1978	-	Even though a Register of Fixed Assets should be maintained for the assets of the Fund, it had not been so done.
(c) Public Finance Circular No. PF/423 of 22		

December 2006

- Section 4.1 (a)

The budget for the year under review had not been presented to the Director General of National Budget and the Director General of Public Finance as requested.

- Section 4.3

Even though a Statement of Changes in the Accumulated Fund together with a copy of the Performance Report for the year under review should have 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, it had not been so done.

(d) Government Financial
Regulations

- | | | |
|--------------------------------------|------------|--|
| (i) Financial Regulation 188(2) | 530,833 | Action in terms of the Financial Regulation had not been taken on 03 cheques relating to receipts totalling Rs.530,833 lapsed for over 06 months. |
| (ii) Financial Regulation 264 | 78,000,000 | Acknowledgements for the receipt of the money by the payees had not been presented for vouchers for the payments totalling Rs.78,000,000. |
| (iii) Financial Regulation 371(2)(b) | 3,059,045 | Even though sub-impressts granted should be settled immediately after the completion of the purpose, the settlement of advances amounting to Rs.3,059,045 had been delayed from 01 month to 10 months. |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year under review had resulted in a deficit of Rs.156,248,490 as against the surplus of Rs.19,444,423 for the preceding year, thus indicating a deterioration of Rs.175,692,913 in the financial results. The increase of publicity and sales expenses, other expenses and finance expenses by Rs.160,678,559, Rs.10,111,593 and Rs.3,792,259 respectively had been the main reasons for the deterioration. Had the understatement of Rs.21,024,451 referred to in the paragraph 1.2.2(b) of this report been adjusted to the deficit, the deficit of Rs.156,248,490 for the year under review would have been increased to Rs.177,272,941.

2.2 Going Concern of the Fund

It is not possible to rule out in audit that the diminishing of the Accumulated Fund due to the unusual increase in the operating expenses, loans remaining without being recovered and the operating deficits would not have an impact on the going concern of the Fund.

3. Operating Review

3.1 Transactions of Contentious Nature

The following observations are made.

- (a) A sum of Rs.159,900,000 from the Fund had been paid to the National Co-operative Board to meet the expenditure on the "Isuru Saviya" National Co-operative Day Celebrations in the year under review. The following observations are made in this connection.
 - (i) The budget estimates of income and expenditure, particulars of proposed programmes and expenditure incurred had not been furnished to audit even by 30 September 2013. The Commissioner of Co-operatives informed that the information on that was not available in the Department.
 - (ii) The Fixed Deposits of the Fund amounting to Rs. 102,686,048 had been placed as surety for obtaining a loan of Rs.90,000,000 for the supply of the money required for the celebration. In addition, a loan of Rs.45,500,000 had been given for the purpose from the

Co-operatives Surplus Fund and out of that a sum of Rs.40,000,000 had not been settled by the Fund even up to 30 September 2013.

- (iii) The income received from the programme in the year under review amounted to Rs.200,000. As the money is not at all adequate to settle the above loans, the Commissioner of Co-operatives had, by his letter No.2/F02/CO.F/FD/2011 dated 16 August 2011, informed the Bank concerned, to recover the loan obtained by planning the fixed deposits as security and the interest thereon from the relevant fixed deposits on the date of maturity. Accordingly the Bank had recovered a sum of Rs.45,400,000 in the year under review from the fixed deposits placed as surety. The balance payable further amounted to Rs.44,600,000.
- (iv) Out of the fixed deposits amounting to Rs.129,788,343 as at the beginning of the year under review, a sum of Rs.89,111,265 or 68.66 per cent had been used for the settlement of the above loans and the money needed for the celebration.

(b) It had been decided to close down the Agri Fund with effect from 01 October 2003 and the assets totalling Rs.16,919,506 and liabilities totalling Rs.16,919,506 had been brought into the accounts of the Fund in the year 2008. It was not possible to establish in audit the basis of adding the assets and the liabilities to the Fund as an objective of the establishment of the Funds were different from each other as well as the accuracy of the stated value of the assets and liabilities taken over.

3.2 Non - achievement of Objectives

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,

assisting Co-operative Societies, etc. Nevertheless, according to the financial statements for the year under review, it was observed that action deviating from those objectives had been taken as the grant of loans to Co-operative Societies and the conduct of Co-operative Education Programmes had not been done after the year 2007.

4. Accountability and Good Governance

4.1 Delay in the Presentation of Financial Statements

In terms of paragraph 4.3 of the Public Finance Circular No.PF/423 of 22 December 2006, the financial statements for the year 2011 should have been presented before 28 February 2012. Nevertheless, the Department had presented the financial statements only on 31 July 2013, that is, after a delay of 17 months.

4.2 Budgetary Control

Variances between the estimated and actual amounts for the year under review were observed. Accordingly, the budget had not been made use of as an instrument of management control.

4.3 Internal Audit

Even though the Internal Audit Unit of the Ministry of Co-operatives and Internal Trade had prepared an Internal Audit Programme for the Fund, the Internal Audit reports of the Internal Audits done accordingly had not been furnished to the Auditor General even up to the end of the year under review.

5. 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 Control
- (c) Collecting of Contributions
- (d) Recovery of loans
- (e) Budgetary Controls
- (f) Advances
- (g) Investments