

Co- operative Development Fund - 2014

The audit of financial statements of the Co- operative Development Fund of the Department of Co- operative Development for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and the statement of income and expenditure and cash flow statement for the year then ended and a 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 the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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 misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the 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 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 Development Fund as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The building costing Rs.350,000 which had been fully depreciated, had been used further due to not reviewing the useful life for non- current assets annually in terms of Sri Lanka Public Sector Accounting Standard 07. Action had not been taken to revise the estimated error so occurred in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Unexplained Differences

According to the financial statements presented, even though the total of Corporative Societies Loans and of 02 receivable loan interest balances being a sum of Rs.31,490,195, a difference amounting to Rs.23,590,794 existed due to that total being a sum of Rs.55,080,989 according to the Schedule.

2.2.3 Lack of Evidence for Audit

The confirmation of balances, age analysis and detailed schedules relating to the balances of Co- operative Societies Loans, Agri- Funds Societies Loans, School Loans, Lorry Loans and Agri- Funds, totalling Rs.50,799,611 had not been furnished to Audit.

2.3 Accounts Receivable

The following observations are made.

- (a) Performance Advances and Courts compensations receivable totalling Rs.3,183,600 as at 31 December of the year under review had not been recovered over a period of 06 years.
- (b) Action had not been taken to identify the debtors relevant to the dishonoured cheques valued at Rs.2,411, 653 stated under non- current assets since the year 2008 and recover money.

- (c) A sum of Rs.180,394 receivable from the Government Account brought forward from the year 2012 had not been recovered even by the end of 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 and Regulations

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 Financial Regulation even by 31 December of the year under review in respect of 04 cheques totalling Rs.300,101 relating to the years 2011 and 2012 deposited but not realised.

(ii) Financial Regulation 396

Action had not been taken in terms of Financial Regulation even by 31 August 2016 in respect of 07 cheques totalling Rs.54,964 issued but not presented to the Bank from 06 months to 04 years.

(b) Treasury Circular No.842 of 31 December 1978

The Register of Fixed Assets had not been maintained.

(c) Public Finance Circular No.423 of 22 December 2006

(i) Paragraph 4.1

The Annual Budget for the year under review had not been presented to the Director General of the National Budget and the Director General of Public Finance after obtaining approval of the relevant Minister.

(ii) Paragraph 4.2

The reports for each quarter on the progress on the regular comparison of the separate Bank Accounts and Books maintained for the Fund had not been presented to the Director General of Public Finance.

(iii) Paragraph 4.3

A statement showing the 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 2 months after the end of the Year of Accounts.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had been a deficit of Rs.11,998,614 as against the surplus of Rs.4,699,969 for the preceding year thus indicating a deterioration of Rs.16,698,583 in the financial result as compared with the preceding year. Even though other expenditure had decreased by a sum of Rs.20,132,234, the decrease of income from contribution by a sum of Rs.15,360,377 and the increase of grants by a sum of Rs.18,414,346 had been the main reason for this deterioration.

An analysis of the financial results for the year under review and the 04 preceding years, indicated a deficit in the years 2011 and 2014 and financial surplus in the years 2010,2012 and 2013. However, in considering employees' remuneration and depreciation on non-current assets, it indicated deficits of Rs.155,473,139 and Rs.10,636,877 respectively in the years 2011 and 2014 and it indicated financial surpluses of Rs.20,195,265, Rs.31,949,148 and Rs.5,861,199 in the years 2010,2012 and 2013 respectively.

4. Operating Review

4.1 Performance

The methods of deployment of money of the Co- operative Fund in terms of Section 43 of the Co-operative Rules published in the Gazette Notification No.93/5 of 10 January 1974 are as follows.

- Co- operative Education, expansion and promotion activities.
- Improving the management efficiency of the Co- operative Societies.
- Assisting the Co- operative Societies.

The following observations are made relating to the execution of the above functions.

- (a) Even though provision of Rs.500,000 had been made in the Action Plan for the year under review for conducting 06 meetings of the Provincial Commissioners of Co- operative Development for the year 2014, only 2 meetings had been held.

- (b) Even though a sum of Rs.1,000,000 had been provided in the year under review to commence a school programme named “*Nena Shakthi*”, such programme had not been implemented in the year under review.

4.2 Management Activities

The following observations are made.

- (a) Action had not been taken to invest the surplus money despite retaining an average balance of Rs.41,000,000 in the Current Account in the year under review.
- (b) Action had not been taken even by 31 August 2016 to identify and settle 07 unidentified bank credit balances totalling Rs.141,539 existing from the years 2010,2011,2012 and 2014.
- (c) Even though money of the Co- operative Fund could be spent for Co- operative Education, expansion and promotion activities, improving the management efficiency of the Co- operative Societies and for assisting Co- operative Societies in terms of Section 43 of the Co- operative Rules published in the Gazette Notification No.93/5 of 10 January 1974, a sum of Rs.194,143 had been spent in the year under review from the Fund for 05 functions contrary to that.

4.3 Operating Activities

The following observations are made.

- (a) A sum of Rs.2,983,090 out of the loan amounting to Rs.3,000,000 provided in the year 2012 to the Kobeigane Co- operative Society Ltd and the outstanding interest of Rs.378,540 remained recoverable as at 31 December of the year under review and action had not been taken by the Fund to recover the money.
- (b) Out of the Dormant Loan Balance amounting to Rs.30,991,460 recoverable by the Fund according to the Dormant Loan Register as at 01 January of the year under review a sum of Rs.456,854 only had been recovered in the year under review. No recoveries whatsoever had been made from the loans totalling Rs.8, 270,900 granted to 20 Co- operative Societies included in the Dormant Loans. No courses of action had been taken for the recovery of that money.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) A sum of Rs.3,427,200 had been paid without proper approval to the National Co- operative Council of Sri Lanka from the Fund in the year under review for payment to a Media Institution for promoting activities of the New Year Festival held in the year 2013 by the Co- operative Societies of the North Western Province and the Federation on a request of the National Co- operative Council of Sri Lanka.

- (b) Even though a loan amounting to Rs.324,000,000 had been obtained in the year 2014 by keeping Fixed Deposits of the Revolving Fund valued at Rs.378,350,000 as surety, a sum of Rs.329,288,382 had been spent for the import of 4,944.27 metric tons of rice. However, 1171.15 metric tons of rice valued at Rs.77,998,590 out of this stock of rice had become unfit for human consumption due to being outdated by 30 September 2016.

4.5 Procurement and Contract Process

The following observations are made.

- (a) A sum of Rs.14,246,171 had been provided to the Co- operative Wholesale Establishment by the Fund in the year under review in connection with the contract for the construction of a building for establishing a Co- operative Society, canteen and a bookshop in a school in the North Western Province deviating from the Procurement Process and without a formal agreement, on the instructions of the Minister in charge of the subject. Even though a canteen and a book shop had been built with that money, a pavilion for the swimming pool of the school had been built without constructing a building for the Co- operative Society.
- (b) A sum of Rs.10,000,000 had been provided from the Revolving Fund to the Commissioner of Co- operative Development of the Uva Province for the purchase of potatoes for free distribution to Divineguma beneficiaries in the year under review. Even though it had been targeted to distribute 02 kilograms each to all Divineguma beneficiaries of the Island, potatoes had been distributed only to Divineguma beneficiaries of the North Western Province. Even though this money had been provided on the consensus reached between the Secretary to the Ministry of Co- operatives and Internal Trade and the Director General of the Department of Divineguma, there had been no written agreement. The money had not been reimbursed to the Fund up to 31 August 2016 and it was informed by the Ministry of Economic Development that the money cannot be reimbursed.
- (c) A sum of Rs.4,234,932 had been spent for the National Co- operative Conference held in the year 2014 and a sum of Rs.3,983,732 had been paid to a private company deviating from the Procurement Process.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of paragraph 4.3 of the Public Finance Circular No.PF/423 dated 22 December 2006, the annual financial statements should be furnished to the Audit within 02 months from the close of the year of accounts. Nevertheless, the financial statements of the Fund had been made available by the Department only on 30 March 2016 , that is, after a delay of 395 days.

6. Systems and Controls

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

Areas of Systems and Controls

Observations

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|---------------------------|---|
| (a) Accounting | Not updating Subsidiary Books. |
| (b) Assets Administration | Not conducting Boards of Survey on due date. |
| (c) Financial Control | (i) Delay in recovering loans from the Co- operative Societies and the failure to take proper follow- up action
.
(ii) Not investing surplus money. |