

Report of the Auditor General on Head 301 - Department of Co - operative Development - Year 2016

The audit of the Appropriation Account and the Reconciliation Statements including the financial records, books, registers and other records of the Head 301 Department of Co-operative Development for the year ended 31 December 2016 was carried out in pursuance of provisions in Article 154(1) of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Commissioner of Co- operative Development and to the Registrar of Co- operative Societies on 08 August 2017. The audit observations, comments and findings on the accounts and reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer on the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions in Article 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions, and Public Finance and Administrative Regulations. The responsibility includes, designing, implementing, maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Department amounted to Rs.76.18 million and out of that Rs.72.31 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provision of the Department had been Rs.3.87 million or 5.08 per cent. Details appear below.

Expenditure	As at 31 December 2016			Savings as a percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	64.72	61.13	3.59	5.55
Capital	11.46	11.18	0.28	2.44
Total	76.18	72.31	3.87	5.08

2.2 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account Item No.30101 of the Department and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
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Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
6.00	4.23	3.00	2.58	20.00	12.39

2.3 **Audit Observation**

The Appropriation Account and Reconciliation Statements of the Department for the year ended 31 December 2016 had been prepared satisfactorily subject to the Audit Observations appearing in the Management Audit Report referred to in paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in that Management Audit Report appear in paragraph 3.

3. **Material and Significant Audit Observations**

3.1 **Non- maintenance of Registers and Books**

The Register of Fixed Assets had not been prepared and updated and the balances had not been brought forward in terms of the Treasury Circular No.842 of 19 December 1978.

3.2 **Reconciliation Statement on Advances to Public Officers Account**

The following observations are made.

- (a) It had not been achieved by a sum of Rs.421,834 to the minimum limit of receipts of Rs.3,000,000 imposed by Schedule iii of the Appropriation (Amendment) Act No.23 of 2016 of the Advances to Public Officers Account Item No.30101 and the approval of the Treasury relating to not following these limits had not been obtained even by 30 September 2017.

- (b) According to the Reconciliation Statement as at 31 December 2016 of the Advances to Public Officers Account Item No.30101 the outstanding balance as at that date totalled Rs.1,120,964. The loan balances relating to the period ranging from 01 year to 13 years totalled Rs.125,514 in those outstanding loan balances. The loan balances remained over 13 years totalled Rs.927,849 and the loan balances which the period could not be mentioned totalled Rs.67,601. The Department had failed to recover those loan balances.

3.3 Performance

 The observations on the progress of the Department according to the Annual Budget Estimate 2016 and the Action Plan are given below.

Key Functions not executed adequately

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- (a) Even though the target was to establish 16 national- level Co-operative Societies, only 03 Societies had been established by 31 December 2016.
- (b) Any action whatsoever had been taken relating to the targets planned to carry out inquiries on the irregularities remaining in the Co- operative Societies.
- (c) Even though 750 instances of settlement of disputes of the Co- operative Societies and empowerment of Courts had been targeted, only 129 verdicts had been delivered in the year under review.
- (d) Even though it had been planned to furnish development projects for strengthening the Co- operative Movement, any suitable projects had not been furnished in the year under review.

3.4 Management Weaknesses

The following weaknesses were observed at the audit test checks.

- (a) Only a sum of Rs. 4,869,469 had been recovered in the year under review out of the contribution money amounting to Rs. 44,773,055 receivable remained in the beginning of the year 2016 in the Co- operative Societies/ Associations.
- (b) A sum of Rs. 616,176,853 remained recoverable as loans and as interest as at 31 December 2015 out of the loans provided for Co –operative Societies by the Co- operative Development and Co- operative Surplus Funds. Only a sum of Rs.3,000,988 had been recovered out of this balance in the year under review.
- (c) The accounts should be audited annually in all societies registered in terms of Section 44(v) of the Co- operative Societies Act, No.05 of 1972. However, the 26 Accounts Reports had been received in the year 2016 and the Audit Reports had been sent by completing the audit in only 02 Societies.
- (d) Suitable action had not been taken by the Department to obtain Accounts Reports within the prescribed period and to refer them to for audit activities even by 31 December 2016.
- (e) It had been planned to obtain the 50 (a) Report by identifying 16 inoperative Co- operative Societies according to the Action Plan 2016, publish the advertisements of cancellation of registration, appoint liquidators and to wound up by liquidation. However, as compared with the progress of the year 2016, only 03 Societies had been identified for obtaining the 50(a) Report. It was observed in the audit that there is a risk of misuse of assets remaining in inoperative societies and of being under- utilized on delaying the liquidation activities of the Co –operative Societies.

- (f) Thirteen Co – operative Societies remained inoperative by December 2016. A sum of Rs.22,413,246 remained recoverable to the funds of the Department of Co-operative Development as loans by 31 December 2015 from these Societies. Action had not been taken even in the year under review to settle the loans recoverable from these Societies and to commence liquidation activities.

3.5 Human Resources Management

Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2016 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	09	04	05
(ii) Tertiary Level	07	06	01
(iii) Secondary Level	105	78	27
(iv) Primary Level	20	12	08
Total	141	100	41