

Co-operatives Development Fund – 2018

1. Opinion

1.1 Qualified Opinion

The audit of the financial statements of the Co-operatives Development Fund for the year ended 31 December 2018 comprising the Balance Sheet as at 31 December 2018 and the statement of Income and Expenditure and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 in conjunction with provisions of the National Audit Act No.19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the Balance Sheet of the Fund as at 31 December 2018, and of its statement of income and expenditure and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for qualified opinion

1.2.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to relevant standard	Management's Comment	Recommendation
(a) In terms of paragraph 21 of the Sri Lanka Public Sector Accounting Standard 1, a statement of changes in net assets/ equity had not been presented along with the financial statements.	-	Act in accordance with the Accounting Standard.

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| (b) | Current assets in the statement of financial position had not been presented in order of liquidity in terms of paragraph 70 of the Sri Lanka Public Sector Accounting Standard 1. | Will be rectified since the current year. | Act in accordance with the Accounting Standard. |
| (c) | In terms of Sri Lanka Public Sector Accounting Standard 2 an error correction of Rs.302,906 made in the previous year and no effect on the cash flow of the year under review had been shown in the cash flow statement under financing activities. | By an oversight, difference of the accumulated surplus was shown under financing activities and action will be taken to present correctly since the current year. | Act in accordance with the Accounting Standard. |
| (d) | In terms of paragraph 40 of the Sri Lanka Public Sector Accounting Standard 2, interest received on investment amounting to Rs.13,369,418 had not been disclosed in the cash flow statement separately as cash flows from investments. Furthermore, even though the investment on fixed deposits of the Fund amounted to Rs.91,079,852, it had been disclosed a sum of | Action will be taken to disclose the interest received on investments separately in the cash flow statement since the current year. | Act in accordance with the Accounting Standard. |

Rs.56,000,000 as cash flows from investing activities and Rs.35,079,852 as cash flows from operating activities.

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| (e) | In terms of paragraph 65 of the Sri Lanka Public Sector Accounting Standard 7, as the useful life of non-current assets had not been reviewed annually, 8 items of non-current assets valued at Rs.4,755,627 fully depreciated but still in use. Accordingly, estimated error had not been revised. | In terms of Sri Lanka Public Sector Accounting Standard 7 after being recognised relevant assets they will be revalued and corrected the accounts accordingly. | Act in accordance with the Accounting Standard. |
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1.2.2 Accounting Deficiencies

Audit Observation	Management's Comment	Recommendation
(a) A donation of Rs.4,400,000 received from a state bank to the Fund in the year under review, had been shown in the financial statements being deducted from the expenses of Co-operatives day festival, without being disclosed as aids received during the year.	This amount of Rs.4.4 million had been given by the People's Bank to cover the expenses of 97 th International Co-operative Day Celebration and accounted accordingly.	Be correctly accounted.

- (b) A provision of Rs.126,700 for gratuity in respect of an officer recruited in the year 2008 had not been made for the year under review. Provision for gratuity will be made since the current year and presented the accounts. Provision for gratuity needs to be accounted.

1.2.3 Unexplained Differences

Item	Value as per financial statements	Value as per subsidiary records	Difference	Management's Comment	Recommendation
	Rs.	Rs.	Rs.		
Loan interests receivable from Co-operative Societies.	7,907,686	7,014,825	892,861	Unable to settle, due to difficulty in finding particulars. Action is being taken to call for societies on differences and get their consent.	Differences needs to be identified and correct it.

1.2.4 Lack of documentary evidence for audit

Item	Amount	Audit evidence not made available	Management's Comment	Recommendation
	Rs.			
Agro-Fund Surplus	14,503,854	Confirmation of balances	The balance transferred to the Co-operatives Fund in the closure of Agro-Fund.	Action to obtain confirmation of balances.
Co-operative	12,860,953	Confirmation of	They are number of	

Societies Loans (Agro Funds)		balances	years old balances. Confirmation of balances will be taken after being identified assets and active societies.
Granting loans- Uva Province	5,439,905	Confirmation of balances	Action will be taken to obtain confirmation balances and submit soon.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

1.4 Scope of Audit (Auditor's responsibility for the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related

disclosures in the financial statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Institute.
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls, sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as

necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.6. Accounts Receivable and Payable

1.6.1 Accounts Receivable

	Audit Observation	Management's Comment	Recommendation
(a)	Action had not been taken to recover the Co-operative loan of Rs.2,666,000 brought forward since 1997, shown under current assets as at 31 December of the year under review, performance advances of Rs.1,999,600 brought forward prior to the year 2012 and court compensation of Rs.1,184,000.	Co-operative school loans and performance advances could not be settled due to difficulties in finding information. Action will be taken to settle after being found particulars.	Action needs to be taken to recover loan balances.
(b)	A sum of Rs.3,000,000 had been granted to Kobeigane Co-operative Society Ltd. for the modernisation of the building in the year 2012 from the Fund. According to the loan agreement, the loan needs to be fully settled by 31	The Provincial Co-operative Commissioners were made aware of these receivable loan balances continuously at the seminars of those Commissioners.	Action needs to be taken to recover loan balances.

<p>December 2018. However, the loan balance of Rs.2,983,090 and the interest thereon amounting to Rs.1,516,387 were due even by 31 December 2018. According to the loan agreement entered into an agreement to cover the security and to obtain an insurance cover had not been done.</p>	<p>Accordingly, action is being taken to recover the loan balances soon.</p>	
<p>(c) Loans of Rs.15,000,000 and Rs.4,500,000 had been granted to the Department of Co-operative Development of the North East Province in the years 1999 and 2000 respectively. Even though, 20 years had lapsed after being granted loans, loan balances of Rs.14,575,000 therefrom and Rs.4,475,000 were receivable as at 31 December 2018 and the loan interest receivable was Rs.3,810,000.</p>	<p>The Provincial Co-operative commissioners were made aware of these receivable loan balances continuously at the seminars of those Commissioners. Accordingly, action is being taken to recover the loan balances soon.</p>	<p>Action needs to be taken to recover loan balances.</p>
<p>(d) Out of loans totalling Rs.2,750,000 granted to Rubber Co-operative Society Ltd. in the years 1987, 1989 and 1990, a loan balance of</p>	<p>This will be submitted to the Audit and Management Committees and expedite the recovery</p>	<p>Action needs to be taken to recover loan balances.</p>

Rs.1,849,634 and the interest on its decision.
Rs.147,971 thereon had been recoverable as at 31 December 2018 even though 28 years had elapsed.

- (e) A loan of Rs.1,000,000 had been granted to the Sri Lanka Milk Manufactures Co-operative Society Ltd. in the year 2002 which is identified as a dormant society at present but any instalment whatsoever had not been recovered even up to 31 December 2018 though 16 years had lapsed. A loan interest of Rs.240,000 was due from that Society as at 31 December 2018.
- Being settled liabilities, expedite to wind up the Society.
- Action needs to be taken to recover loan balances.
- (f) Of the total loans of Rs.43,809,281 granted to 54 Co-operative Societies, the balance due from periods ranging from 16 years to 54 years as at 31 December 2018 amounted to Rs.34,303,581. By the end of the year under review, the number of active societies that repay loans was only 2.
- Steps will be taken to review such loan again and present to the Fund Management Committee and take action on its decision.
- Action needs to be taken to recover loan balances.

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

Reference to Laws, Rules, etc.	Non-compliance	Management's Comment	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka (F.R) Financial Regulation 188(2)	Action had not been taken in respect of 2 cheques totalling Rs.300,000 deposited but not realised relating to the years 2011 and 2012 in terms of Financial Regulations.	Will be settled in the current year soon.	Act in accordance with financial regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements presented the financial result of the Fund for the year under review had been a surplus of Rs.19,742,511 as compared with the surplus of Rs.27,420,879 for the preceding year. Accordingly, a deterioration of Rs.7,678,368 was shown in the financial result of the year under review as compared with the preceding year. Decrease of contribution money by Rs.7,508,189 and increase of operating expenses of Rs.2,247,578 had mainly attributed this deterioration.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observation	Management's Comment	Recommendation
<p>Of the balance of receivable subscription of Rs.62,557,658 as at 31 December 2018, sums of Rs.25,944,056 and Rs.36,613,601 had been older than 4 years and 01 to 4 years respectively. Any subscriptions whatsoever had not been recovered since 2015 from 13 Co-operative Societies of them and that balance represented Rs.24,172,353. Similarly, of the receivable subscription balances as at 31 December of the year under review, the balance of Rs.30,499,383 representing 48.8 per cent was due from the Education Services Employees Co-operative Society Ltd.</p>	<p>As the Society has failed to provide information required to audit, the audit was delayed. Further, more the accounts relating to the year 2013 was received by the Department in 2015 and the accounts for 2014 and 2015 were received in the year 2018. Accordingly, the delay of audit is accepted. However, audits relating to the years 2013, 2014 and 2015 were updated by 30.06.2019.</p>	<p>Audit of Co-operative Societies needs to be completed on due time and action needs to be taken to recover the subscription.</p>

3.2 Under-utilization Funds

	Audit Observation	Management's Comment	Recommendation
(a)	A sum of Rs.4,291,000 received from the Department in the year under review for INFORCOOP Project had been remained unutilized as a liability of the Fund	It is expected to utilise this amount of Rs.4,291,000 for procurements in future. As the approval for the cost relating to the first year from the initial cost of Rs.170 million had not been received, project activities were delayed.	Money received from Department needs to be used for the relevant purpose within the specific time limits.
(b)	More than Rs.2 million was retained in the bank current account at the end of every month and its monthly average was Rs.8,871,941. Accordingly, action had not been taken to invest surplus money being forecasted the monthly expenditure requirement.	Money is retained in the current account for payments ⁰ in certain occasions and otherwise, action has been taken to invest surplus money in fixed deposit.	Surplus money needs to be invested.