

Cooperative Surplus Fund - 2018

Disclaimer of Opinion

The audit of the financial statements of the Cooperative Surplus Fund for the year ended 31 December 2018 comprising the Balance Sheet as at 31 December 2018, income and expenditure statement 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 read in conjunction with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Fund. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.1 Basis for Disclaimer of Opinion

My opinion is disclaimed on the matters described in paragraph 1.5 of this report.

1.2 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 the management determines is necessary to enable the preparation of financial statements that are free from material misstatements 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, disclaiming as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative 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 income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Fund.

1.3 Auditor's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Fund's financial statements in accordance with Sri Lanka Accounting Standards and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate to provide a basis for an audit opinion on these financial statements.

1.4 Financial Statements

1.4.1 Internal Control over the preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls insufficient 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 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.

1.4.2 Non- compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non- compliance with the reference to particular Standard	Management Comment	Recommendation
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(a) A statement of changes in net assets/equity had not been furnished along with the Financial Statements in terms of paragraph 21 of the Sri Lanka Public Sector Accounting Standard 1. Moreover, notes including a summary of significant accounting policies and other detailed notes had not been furnished along with the financial statements.	Agreed.	Action should be taken in terms of the Accounting Standard.
(b) The carrying amount in property, plant and equipment, depreciation rates, measurement bases relating to investments and investment interests used in preparing financial, statements, had not been disclosed in terms of paragraph 132 of the Sri Lanka Public Sector Accounting Standard 1.	It had been furnished by the Note No.5 relating to property, plant and equipment and by the Schedule No.1 of the Detailed Register. It had been furnished by the Note No.2 relating to Investments and by Detailed Schedules No.2 and No.3.	Action should be taken in terms of the Accounting Standard.

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| <p>(c) Even though material prior period errors should be corrected retrospectively after their discovery by restating the comparative amounts for prior period presented in which the error occurred in terms of paragraph 47 of the Sri Lanka Public Sector Accounting Standard 3, instead, a sum of Rs.8,054,044 had been stated as prior year adjustments in the Financial Statements of the year under review.</p> | <p>The error occurred in calculating the receivable fixed deposit interest in the preceding year had been rectified and had been furnished.</p> | <p>Action should be taken in terms of the Accounting Standard.</p> |
| <p>(d) Non- current assets amounting to Rs.4,523,617 remained being further used by the Fund despite being fully depreciated due to not annually reviewing the useful life for non- current assets in terms of paragraph 65 of the Sri Lanka Public Sector Accounting Standard 7. As such, action had not been taken to revise the estimated error in terms of the Sri Lanka Public Sector Accounting Standard 03.</p> | <p>Agreed. I inform that accounts will be prepared by removing the estimated errors in the preceding year.</p> | <p>Action should be taken in terms of the Accounting Standard.</p> |

1.4.3 Accounting Deficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>(a) Even though the provision that should be made on the Cooperative Active Loan Balance as at 31 December 2018 in terms of the Policy of provisioning Doubtful Loans of the Fund is a sum of Rs.13,749,075, the provision had been overstated by a sum of Rs.364,680 in the financial statements on the provision made as at that date being a sum of Rs.14,113,755.</p>	<p>This error had occurred on the delays occurred in posting Cooperative Society Loans and Interest Schedules and in accounting.</p>	<p>Should be brought to account accurately.</p>

- (b) Cooperative Society Loan Interest relating to the year under review had been brought to account more than a sum of Rs.224,610. This error had occurred on a delay occurred in posting Cooperative Society Loans and Interest Schedules and in accounting. Should be brought to account accurately.

1.4.4 Unexplained Differences

The following observations are made.

Item	Value As per Financial Statements	Value As per Corresponding Record	Difference	Comments of the Management	Recommendation
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	Rs.	Rs.	Rs.		
(a) Cooperative Society Loans	554,726,072	654,724,398	99,998,326	The difference remaining between the Cooperative Society Loan Ledger and the Schedule is a difference remaining from a long time.	Action should be taken to identify and to rectify the difference.
(b) Receivable Cooperative Society Loan Balances	187,329,883	124,525,128	62,804,755	The difference remaining between the Cooperative Society Loan Ledger and the Schedule is a difference remaining from a long time.	Action should be taken to identify and to rectify the difference.

1.4.5 Suspense Accounts

Item	Amount	Period in Suspense	Comments of the Management	Recommendation
	Rs.			
Suspense Accounts	9,475,735	19 years	It is a value remaining from the year 1999 and it is scheduled to be furnished to the Audit and Management Committee and suitable action would be taken based on its recommendations.	Adjustments necessary for the accounts should be made by settling the Suspense Account.

1.4.6 Documentary Evidence not made available for Audit

The following observations are made.

Item	Amount	Evidence not available	Comments of the Management	Recommendation
	Rs.			
(a) Receivable Cooperative Society Loans	554,726,072	Confirmations of Balances	Even though it had been informed by the Cooperative Societies to confirm the loan balances, it had not been able to obtain confirmations of balances due to the failure in responding by certain societies. Action will be taken by me to obtain the confirmations of balances and present them for audit in due course.	Action should be taken to obtain Confirmations of Balances.
(b) Amount receivable from the Cooperative Fund	5,029,486	Confirmations of Balances		

(c)	General Deposit Account	9,961,736	Detailed Schedule	} Not furnished replies.	Action should be taken to present relevant schedules and to obtain balance confirmations.
(d)	Fixed Deposit Guarantee Creditors	58,918,112	Loan Documents and Confirmations of Balances		
(e)	Liquidated Account (Debit Balance)	2,620,473	A copy of the prepared Liquidated Account.		
(f)	Payable Treasury Fund	150,000	Confirmations of Balances and Detailed Schedules		
(g)	Payable National Trustee Fund	3,871,256	Confirmations of Balances and Detailed Schedules		

1.5 Accounts Receivable and Payable

1.5.1 Receivables

The following observations are made.

Audit Observations	Comments of the Management	Recommendations
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(a) The loan balance amounting to Rs.128,993,618 and the outstanding interest relating thereto amounting to Rs.57,779,966 of the loan amounting to Rs.155,919,038 which had been provided to the Consumer Cooperative Societies Federation of Sri Lanka from the year 1992 to the year 2014 remained further recoverable.	Agreed. Notices had been made frequently to repay the loans relating to the Consumer Cooperative Societies Federation of Sri Lanka as per the agreements and the relevant instructions had been given by calling up the Society.	Action should be taken to recover the loan balances.

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| (b) | The loan installments and the interest recoverable as at the last date, of the loans provided to 6 Cooperative Societies in the years 2011,2012 and 2013 had been sums of Rs.78,620,419 and Rs.39,957,507 respectively. | Agreed. Instructions had been given to take action to recover in parts based on the capabilities that are remaining to make payments to the Societies by calling upon the relevant Societies and by redocumenting the loans. | Action should be taken to recover the loan balances. |
| (c) | Action had not been taken to settle the dishonoured Cheque Balance amounting to Rs.1,721,566 that remains to be brought forward from the year 1999, which had been stated under Miscellaneous Assets. | It is a value existing from the year 1999 and it is scheduled to be furnished to the Audit and Management Committee and to take necessary actions based on its recommendations. | Action should be taken to settle the dishonoured Cheque Balance. |
| (d) | Only a sum of Rs.736,536 had been recovered in the year under review of the Loan Balance recoverable amounting to Rs.90,910,718 remained in the beginning of the year, of the loan provided to 70 Cooperative Societies within the period from the year 1989 to the year 2006. | It had been referred to the Committee which had been appointed for redocumenting loans and I inform that the loans would be recovered in future. | Action should be taken to recover the loan balances. |

1.5.2 Payables

Audit Observation	Comments of the Management	Recommendation
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Action had not been taken to recover the balance older than 30 years amounting to Rs.6,017,551 payable to the Surplus Fund stated under Miscellaneous Liabilities in the Balance Sheet and the balances older than 05 years in 05 other Liability Accounts totalling Rs.7,299,745.	Balances had not been settled on not identifying sufficient evidences to settle the balances. A Committee had been appointed to rectify these Accounts in future.	Action should be taken to recover the loan balances.

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

Reference to Laws, Regulations etc.	Non- compliance	Comments of the Management	Recommendations
Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 188(2)	Action had not been taken in terms of Financial Regulations relating to 02 Cheques that were deposited but not realized totalling Rs.106,093 relating to the years 2013 and 2014.	Agreed. Action would be taken to expeditiously.	Action should be taken in terms of Financial Regulations.

2. Financial Review

2.1 Financial Results

The financial result of the year under review had resulted in a surplus of Rs.169,817,707 as compared with the corresponding surplus of Rs.206,780,520 for the previous year thus indicating a deterioration of Rs.36,962,813 in the financial result. Even though the Institutional and Administrative Expenses had decreased by a sum of Rs.5,573,023. The decrease of the interest income by a sum of Rs.41,552,368 had been the main reason for the above deterioration

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Carrying out follow- up action by the Department relating to the loans provided to Cooperative Societies remained at a weak level. As such, only a sum of Rs.10,558,119 had been recovered in the year under review of the loan balance totalling Rs.610,551,550	Agreed. Instructions had been given to the Officers to recover loans and to carry out follow- up action.	Action should be taken to carry out follow- up action relating to the loans provided to Cooperative Societies and to recover loans.

remained in the beginning of the year under review and it had only been 1.72 per cent of the balance remained in the beginning of the year under review.

- (b) A sum of Rs.56,901,825 spent by the Fund from the year 2007 to the year 2015 by the Fund for exempting miscellaneous expenses and deposits of the liquidation of the Human Resources Cooperative Society that had been cancelled its registration in the year 2009, had been stated as a receivable balance. It had not been able to recover the receivable balance on the liquidation activities of the Society not being wound up even by the date of audit
- Agreed. Most of the Files had been closed as per the decision of liquidation and the loans remain being recovered in installments from the operative Files.
- Action should be taken to wound up the liquidation activities of the Society.
- (c) A sum of Rs.35,762, 355 of the loan interest of the outstanding loan balance amounting to Rs.62,091,327 as at 31 December 2018 of the loan amounting to Rs.75,000,000 provided in the year 2013 to the Building Materials Corporation (BMC) remained to be recovered. Even though the term of recovering loans had been exceeded as per the agreement, action had not been taken by the Fund to recover the loans by realizing the assets.
- It had been informed in writing for the recovery of the loan provided to the Building Materials Corporation. If the loan is not being repaid, action would be taken to recover the loan by taking legal action.
- Action should be taken to recover the loans as per the agreement.

3.2 Under- utilization of Funds

Audit Observation

A balance of over Rs.3 million had been maintained in each month in the Bank Current Account in the year under review and the balance as at 31 December had been a sum of Rs.48,449,063. As such, action had not been taken to invest the excess money by forecasting the monthly expenses.

Comments of the Management

Action had been taken to invest the excess money by forecasting the monthly expenses and action had been taken to invest Rs.45 million of the balance remained as at 31 December, within the first week in January 2019.

Recommendation

Action should be taken to invest the excess money.