

Cooperative Surplus Fund - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Cooperative Surplus Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in equity 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 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 financial position of the Fund as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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 Fund.

1.4 Auditor's Responsibility on the Audit of the 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 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 statements 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 Fund;
- Whether the Fund has performed according to its powers, functions and duties; and whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of 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.

1.5.2 Accounting deficiencies

Audit Observation	Comments of the Management	Recommendation
The value of the software amounting to Rs. 189,001 removed from the use as pointed out in the report of the Auditor General of the previous year had been eliminated from intangible assets and transferred to the revaluation account in the year under review.	All the assets were transferred to the revaluation account and a revaluation value has not been identified for that and the officers have been instructed to make relevant rectifications in the future.	The assets removed should be transferred to a disposal account.

1.5.3 Suspense Accounts

Item	Amount Rs.	Period in Suspense	Comments of the Management	Recommendation
Suspense Accounts	9,475,735	22 Years	This is a long standing balance and the settlement has been delayed due to difficulty in finding information. The officers have been instructed to expedite the settlement of this balance.	Action should be taken to identify the balance of the suspense account and to settle it.

1.5.4 Lack of Documentary Evidence for Audit

 The following observations are made.

	Item	Amount	Evidence not made available for Audit	Comments of the Management	Recommendation
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(a)	Co-operative Society Loans Receivable	584,064,361	Balance Confirmations	Request letters have been forwarded to Co-operative Societies by asking for confirmations of balances and only 05 Societies had responded therefor.	Action should be taken to obtain confirmations of balances.
(b)	Amount receivable from the Co-operative Fund	5,029,486	Balance Confirmations	Action will be taken to obtain confirmations of balances and to submit them.	-Do -
(c)	Treasury Loans Receivable	81,871,370	Balance Confirmations	A letter has been forwarded to the Deputy Secretary to the Treasury to confirm this matter.	-Do -
(d)	Treasury Fund Payable	150,000	Detailed schedules	Officers have been instructed to settle this expeditiously.	Action should be taken to submit detailed schedules, which confirm the balances.
(e)	National Trustee Fund Payable	3,871,256	Detailed schedules	Officers have been instructed to settle this expeditiously.	Action should be taken to submit detailed schedules.
(f)	General Deposit Account	7,544,762	Detailed schedules		-Do -
(g)	Fixed Deposit Guarantee Creditors	58,918,112	Loan files and balance confirmations.	Action is being taken to rectify it in the preparation of the accounts in the current year.	Action should be taken to submit loan files and balance confirmations.
(h)	Liquidation Accounts (Debit Balance)	2,620,473	Copies of the Liquidation Account prepared.	Officers have been instructed to submit in the current year.	Copies of the Liquidation Account should be submitted.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) According to the non-performing loan schedule, a balance of Rs.89,814,182 had been outstanding as at 01 January 2021, out of the loan amounting to Rs. 129,631,173 given to 70 cooperative societies from the Fund during the period of 1989 to 2006. An amount of Rs.606,111 had been received as loan instalments in the year under review. However, any amount had not been recovered from the loan interest amounting to Rs.102,110,771 as at 31 December 2021.	The loans in the non-performing loan register were very old loans provided from the Cooperative Surplus Fund and a system has already been developed to recover these loans.	Action should be taken to duly recover the loan instalments and the interest.
(b) Action had not been taken to settle the balance of the dishonoured cheques amounting to Rs.1,721,566, which had been indicated under various assets and which had been carried forward from the year 1999,.	This is a long standing balance and the settlement has been delayed due to the difficulty in finding information.	Action should be taken to settle the balance of the dishonoured cheques.
(c) Only a sum of Rs.9,120,436 had been recovered in the year under review, out of the balance of the performing loan receivable amounting to Rs.506,433,222 as at 01 January in the year under review. Although a loan interest amounting to Rs.216,582,478, receivable on these loan balances had to be recovered as at 31 December 2021, only a sum of Rs.5,854,846 had been received during the year.	The officials of the related society were called to recover these loans and the loans given based on the comments and requests made by those officials have been rescheduled.	Action should be taken to recover the loan amount and the interest amount.
(d) Action had not been taken even by the end of the year under review to recover any amount of the loan of Rs.160,802,292 that had been given to various cooperative societies and associations and prevailing for more than 07 years and the interest amounting to Rs.87,099,974 receivable for that amount.	Officers of the societies that had given loans were called and discussed and only Kurunegala Co-Operative Hospital Society Limited has given a good response.	-Do-

1.6.2 Payables

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Although the balance, amounting to Rs.6,017,551, payable to the Surplus Fund and indicated under miscellaneous liabilities in the statement of financial position, had been prevailing from the year 1987, action had not been taken to settle it even in the year under review.	This is a long standing balance and the settlement has been delayed due to the difficulty in finding information.	Action should be taken to settle the amount payable.
(b) Recoveries from the liquidated Societies and excess recoveries, out of the 04 balances of accounts under the liabilities payable totalling to Rs.834,392, had been existing for over 10 years and action had not been taken to settle the balances such as the Co-operative Fund Western Province and Accounts Transfers for more than 02 years.	This is a long-standing balance and the settlement has been delayed due to the difficulty in finding information and the written confirmation regarding the amount to be recovered from the Western Province has been received by the letter dated 26.05.2022.	Action should be taken to settle the amount payable.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs.105,727,365 and the corresponding surplus according to the restated account of the previous year was Rs.165,413,611. Accordingly, a deterioration of Rs.59,686,246 was observed in the financial result. The decrease in interest income by Rs.36,177,803 and the increase in other expenses by Rs.22,804,176 had been the major reasons for this deterioration.

3. Operational review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) The following observations are made regarding the provision of a loan amounting to Rs. 75,000,000 to the		

Building Materials Corporation from the Surplus Fund on 07 May 2013.

- (i) Although loans can be given to Cooperative Societies and Associations from the Cooperative Surplus Fund according to 44 (iii) of the Co-operative Societies Rules of 1973, the loan had been granted to an institution, for which provisions were not stipulated in the Act. The State Ministry of Cooperative Services, Marketing Development and Consumer Protection has been instructed at the meeting of the Committee on Public Accounts held on 05 August 2021 to submit a cabinet paper to recover the amount from the Building Materials Corporation. Information was submitted that the State Ministry had prepared the relevant Cabinet Paper and forwarded it to the Office of the Cabinet of Ministers on 28.03.2022. Action should be taken to grant loans as per the provisions of the Act.
- (ii) Although the amount of loan had been granted to be paid in 08 instalments at the interest rate of 16 percent according to the Loan Agreement, any confirmation on the financial feasibility of repaying the loan had not been obtained. Although 09 years had passed since the loan was given, action had not been taken to recover the loan amount and the interest totalling to Rs.127,657,592 even by 31 December 2021. The above answer is applicable. Action should be taken to recover the loan as per the Loan Agreement.
- (iii) According to Clause 2 of the Loan Agreement, securities have been kept in relation to the loan amount and it is stated in paragraph 3 of the Agreement that it is possible to recover the loan amount from those assets, in case of a failure to finalize the repayment of this loan amount. Nevertheless, arrangements had not been made to resort to legal action to recover the loan amount although more than 09 years had passed. The above answer is applicable. Action should be taken to recover the loan.

- (b) A loan amount of Rs.50,000,000 had been given to Galle Cooperative Hospital Ltd. in April 2013 and the Fund Management Committee had restructured the loan by including new Conditions on 21 September 2021 as per the request made by the Society. Although it had been stated that the Co-operative Management Committee should be appointed in terms of the powers vested in the Commissioner of Co-operative Development by the Co-operative Societies Rules 1973 enacted under Section 61 of the Co-operative Societies Act No. 05 of 1972 according to the letter of appointment given to the officers of the Debt Restructuring Committee, powers had been delegated to a committee without enacting or amending the Rules.
- It has been stated under 43 (i) of the Co-operative Societies Rules that the Registrar of Co-operative Societies shall administer the Co-operative Fund subject to any general or special provisions made by the Minister in charge of the Subject. Accordingly, the Registrar of the Cooperative Societies has appointed a Fund Management Committee as an administrative methodology for administering the Cooperative Fund, and the Commissioner of Cooperative Development and the Registrar of Societies hold responsibility for all the activities carried out in relation to the Fund.
- Action should be taken in accordance with the Conditions of the Act and the Rules of the societies.