

Cooperative Development Fund - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Cooperative Development Fund for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 report 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 financial statements give a true and fair view of the financial position of the Fund as at 31 December 2022, 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

I expressed qualified opinion 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 Sub 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 Responsibilities for 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 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 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

The following observations are made.

	Audit Observation	Comment of the Management	Recommendation
(a)	Although the contribution income in the year under review had been Rs.37,806,761, the contribution income had been indicated as Rs.35,029,761 in the financial statements and as a result, it had been understated by Rs.2,777,000.	This problem has arisen due to a delay in submission of information to the Accounts Division.	Action should be taken to account the correct value.
(b)	Although the balance of contribution income receivable had been Rs.121,945,590, the contributions receivable had been indicated as Rs.119,458,972 under current assets in the financial statements and as a result, it had been understated by Rs.2,486,618.	The above answer applies.	-Do-
(c)	Although the advance contribution balance received had been Rs.2,007,744, the advance contributions received as current liabilities in the financial statement had been indicated as Rs.2,298,123, and as a result, it had been overstated by Rs.290,379.	This problem has arisen due to a delay in submission of information to the accounts division.	Arrangements should be made to account the accurate value.

1.5.3 Documentary Evidence not made available for audit

The following observations are made.

	Item	Amount Rs.	Evidence not made available	Comment of the Management	Recommendation
(a)	Co-operative Society Loans	46,747,217	Balance Confirmations	Even though the societies have been made aware to submit balance confirmations for this purpose, balance confirmations have not been submitted.	Related proof should be available to confirm the balances.
(b)	Unsettled Advances	45,525	Balance Confirmations	It has not been possible to submit the balance confirmations as finding information in this regard has become a problem.	-Do-
(c)	Transfer of Surplus Fund	20,000	Balance Confirmations	-Do-	-Do-
(d)	Providing loans Uva Province	5,439,905	Balance Confirmations	-Do-	-Do-

2. Financial review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs.79,412,313 and corresponding surplus of the previous year had been Rs.68,573,375. Accordingly, an improvement of Rs.10,838,938 was observed in the financial result. Although the contribution income had decreased by Rs. 36,716,953, the increase in investment interest income by Rs.43,840,907 and miscellaneous income by Rs.2,629,917 had been the major reason for this improvement.

3. Operational review

3.1 Management Inefficiencies

The following observations are made.

	Audit Observation	Comment of the Management	Recommendation
(a)	Co-operative Society Loans		
(i)	Even though there had been a total outstanding loan balance amounting to Rs.34,303,931 as at 01 January 2022 comprised of an amount of	These debts are very old and recovery activities are being carried out in association with the officials nominated by the	Loan balances should be recovered.

Rs.31,287,451 from 54 inactive cooperative societies and Rs.3,016,480 from two active societies, only a loan instalment of Rs. 57,297 had been recovered in the year under review. As a result, the cooperative society loan had been Rs.34,019,114 and the interest had been Rs.8,346,192 to be recovered by 31 December of the year under review. There had been outstanding balances prevailed from 21 years to 58 years, out of that loan and interest. Any loan instalment had not been recovered from the loan amount of Rs.8,420,900 that had been provided to 18 societies. Even though the loan amount of Rs.3,000,000, provided to Kobeigane Multi-Purpose Co-operative Society in the year 2012 had to be paid in 54 instalments, only one instalment had been paid in the year 2013.

Provincial Commissioners and societies.

Arrangements are being made to take legal action regarding the loans given to Kobeigane Multi-Purpose Co-operative Society under active credit.

(ii) Action had not been taken to recover co-operative school loan amounting to Rs.2,666,000, that had been prevailing from the year 1997 and indicated under current assets as at 31 December of the year under review and performance advances amounting to Rs.1,838,512 that had been prevailing prior to the year 2012 and court compensations receivable amounting to Rs.1,021,459.

There are problems in the settlement as it was not been possible to find specific information regarding the loans, that had been prevailing from the year 1997.

Action should be taken to recover loan balances.

A part of the performance advance that had been prevailing prior to the year 2012 has been settled. Action will be taken in the future to settle the remaining balance on the confirmations received from the National Cooperative Development Institute.

An amount of Rs.11,607, out of the court compensation amount receivable amounting to of Rs.1,021,459, is being charged monthly. An amount of Rs.208,969 has been charged by April 2023.

<p>(iii) The balance of contributions receivable as at 31 December 2022 had been Rs. 119,458,972 and a total of Rs.78,614,935, comprised of Rs.61,319,008 and Rs. 17,295,927, viz a higher percentage of 66 percent should have been recovered from the two societies namely, Education Employees Cooperative Thrift and Credit Society Limited and the Public Service Cooperative Credit and Thrift Society Ltd. Contributions had not been received from 12 societies from the year 2009 to the year under review, within the contribution balance receivable and the balance had been Rs.5,394,642.</p>	<p>Action is being taken even at present to function according to the instructions of the audit and management committee meeting and I will take action to discuss with the societies within the next 02 months and to recover the amounts.</p>	<p>Arrangements should be made to recover the balances receivable without delay.</p>
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(b) Revolving Fund

<p>(i) A loan amount of Rs. 290 million had been granted to 09 provincial co-operative societies from the fund in the year 2010 and 2011. A sum of Rs.7,126,500, out of the loan instalments to be paid by 31 December 2022, of the loan amount provided to the consumer society of the North Central Province, and any instalment out of Rs.800,000 had not been recovered, of the loan amount provided to Uva Provincial Consumer society, out of those loans.</p>	<p>There is a problem of recovering only the loan amount given to the consumer society of North Central Province and consumer society of Uva Province out of the loan amount that should be recovered.</p>	<p>Action should be taken to recover the loan balances.</p>
<p>(ii) The value of loans provided to the co-operative consumer society in the years 2011 and 2012 had been Rs.166 million and the amount to be received by 31 December 2022, out of that amount, had been Rs.44 million. Even though it had been mentioned that the loan should be settled within one or two months after obtaining the loan according to the loan agreements, action had not been taken to recover the loan although 10 years had passed.</p>	<p>Even though the co-operative consumer society was made aware continuously regarding the recovery of the loans granted to the co-operative consumer society, there are problems in the recovery of loans.</p>	<p>Action should be taken to recover the loan balances.</p>
<p>(iii) A sum of Rs.20.4 million remained outstanding as at 31 December 2022, out</p>	<p>Even though the co-operative consumer society was made</p>	<p>-Do-</p>

of the loan amount of Rs.50 million provided to the Cooperative Marketing Society in the year 2011, and action had not been taken to recover the amount. aware continuously regarding the recovery of the loans granted to the co-operative consumer society, there are problems in the recovery of loans.

- (iv) In the year 2011, Rs.152.5 million had been provided to the Cooperative Wholesale Establishment from the Cooperative Development Fund. Of that amount, only Rs. 60 million had been recovered in the year 2012, and the loan balance to be recovered further as at 31 December 2022 had been Rs. 92.5 million. In this regard, the Cooperative Wholesale Establishment has been informed in this regard through the Secretary of the State Ministry on 13.01.2022. However, a favourable response has not yet been given in this regard. -Do-

3.2 Operational Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) According to section 43 (a) of the Co-operative Societies (Amendment) Act No. 32 of 1983, Every registered society shall cause proper accounts of the income and expenditure, assets and liabilities and of all other transactions of the society to be kept and such statement of accounts shall be submitted to the Registrar or other person authorized by him within three months of the close of the financial year to which it relates. By the end of the year 2022, 53 societies and 16 associations had been registered. However, 32 societies and 05 associations, among them, had not submitted their accounts for the year 2021.	Agreed.	Proceed to obtain financial statements as per Co-operative Societies Act.
(b) As per Sub-Sections 1, 2, 3 of Section 43(b) of the Co-operative Societies (Amendment) Act No. 32 of 1983, every registered society shall prepare a budget document and approve it by the general body of the society one month before the commencement of the financial year to which it relates and a copy thereof should be sent to the Registrar. However, 48 societies and 12 associations, out of 53 cooperative societies and 16 associations registered for the year 2022, had not submitted budgets.	According to the existing provisions of the Co-operative Societies Act, it has been instructed by the supervisory officers of the societies to get the approval of the general body of the society/association for the development plans and budget estimate of	Actions should be taken to obtain the budgets as per the Co-operative Societies Act.

the ensuing year of the societies/associations and then to send a certified copy of the document to the Department.

- (c) Under Section 66 (a) (1) of the Co-operative Societies (Amendment) Act No. 11 of 1992, the Chairman of a registered co-operative society and every member of the committee shall submit a statement of assets and liabilities in the prescribed form to the Co-operative Development Commissioner annually, only 07 registered societies and associations, out of 69 societies and associations registered for the year ended 31 March 2022, had submitted statements of assets and liabilities.
- The Department always informs societies/associations in writing about this, and only 07 societies have responded to those notifications. Accordingly, these societies/associations will be informed again and arrangements will be made to obtain the statements of assets / liabilities.
- Actions should be taken to obtain statements of assets and liabilities as per the Co-operative Societies Act.