

Co-operative Development Fund - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Co-operative Development Fund for the year ended 31 December 2020 comprising the financial position as at 31 December 2020 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 financial statements give a true and fair view of the financial position of the Fund as at 31 December 2020, and its financial performance and 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 determines 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 Responsibility for 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 audit 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 audit 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance with reference to the relevant Standard	Comments of the Management	Recommendation
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(a) In terms of paragraph 40 of Standard 2, receipts of interest from investments amounting to Rs.16,395,006 had not been disclosed separately in the cash flow statement.	Action will be taken to rectify through accounts in the year 2021.	Action should be taken in terms of the Accounting Standard.

- (b) Even though the fully depreciated Accounts have been -do- non-current assets valued at rectified by concluding Rs.5,481,500 were further being revaluation. used, the useful life of assets had not been annually reviewed in terms of paragraph 65 of Standard 7. Accordingly, action had not been taken to revise the estimated error in terms of Standard 3.

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken to identify and account the sum of Rs.9,844,298 according to direct credits made to the bank as at 31 December 2020.	The said direct credits are related to the Covid-19 essential distribution programme and bank deposits amounting to Rs.8,647,298 have been identified and rectified.	Action should be taken to identify and account direct credits.
(b) The loan interest receivable from inactive Societies during preceding years had been overstated by Rs.892,864 . As such, the loan interest receivable and the accumulated surplus had been overstated by those amounts.	The loan interest amounting to Rs.7,704,272 indicated in Schedule 07 granted to Co-operative Societies has been rectified through journal entries.	The loan interest should be accurately computed and brought to account.

1.5.4 Lack of Documentary Evidence for Audit

The following observations are made.

Item	Amount	Audit Evidence not submitted	Comments of the Management	Recommendation
(a) Co-operative Society loans	47,164,884	Confirmations of balances	Several years old loan balances exist and prompt action will be taken to obtain loan	Action should be taken to obtain confirmation of balances.

			confirmations after identifying active Societies.	
(b) Unsettled advances	45,525	Confirmations of balances	Action will be taken to look into this matter and settle same.	-do-
(c) Other current assets	20,000	Confirmations of balances	This is a balance receivable from the Surplus Fund and action will be taken to look into the said matter and to settle same.	-do-
(d) Granting Loans Uva Province	5,439,905	Confirmations of balances	Action will be taken to obtain confirmations of balances and submit to Audit.	-do-

2. Financial Review

2.1 Financial Results

The operations of the year under review resulted in a surplus of Rs.132,772,822 as compared with the corresponding surplus of Rs.92,070,503 of the preceding year, thus observing an improvement of Rs.40,702,319 in the financial result. The increase in income from contributions by Rs.19,317,908, decrease in provision for doubtful debts by Rs.6,057,034, decrease in expenditure on Co-operative Day celebrations by Rs.11,162,955, decrease in foreign travel expenses by Rs.40,090,179 as well as non-incurring of expenditure on publications, expenditure on awareness and expenditure on programmes for introducing projects of the year under review had mainly attributed for this improvement.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) An outstanding loan balance totalling Rs.34,303,931 comprising Rs.31,287,451 and Rs.3,016,480 relating to 54 inactive Societies and 2 active Societies respectively and an interest of Rs.7,704,272 was recoverable as at 01 January 2020. However, no monies whatsoever had been recovered in the year under review. The said loan and interest were balances unrecovered during a period ranging from 8 years to 56 years and out of the loan amounting to Rs.8,450,900 granted to 20 Societies, no loan installment whatsoever had been recovered. Moreover, the loan of Rs.3,000,000 granted to the Kobeigane Multi-purpose Co-operative Society in the year 2012 should have been settled in 54 installments. However, only one installment had been paid out of the said loan in the year 2013.	It has been decided to take action to assign the recovery of loans of Provincial Societies unrecovered before the year 2000, to Provincial Departments, to write off non-performance loans of this Department, recovery of loans unrecovered after the year 2000 by providing interest relief after re-scheduling or taking legal action.	should be taken to recover loan balances.
(b) Action had not been taken to recover Co-operative School Loan amounting to Rs.2,666,000 indicated under	Action will be taken to settle by searching for files in this connection and	Action should be taken to recover loan balances.

current assets, brought forward from the year 1997, performance advances amounting to Rs.1,999,600 brought forward since before the year 2012 and receivable court compensation of Rs.1,184,000 as at 31 December of the year under review.

letters have been sent to the officer briefing to settle the court compensation of Rs.184,000 as soon as possible.

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| (c) | A contribution of Rs.146,999,075 was receivable to the Fund from 42 Co-operative Societies as at 01 January of the year under review and contributions of Rs.120,930,257 was receivable for 28 Societies relating to the year under review. Out of that, only contributions of Rs.47,272,173 had been recovered from 16 Societies during the year under review. | Action is being taken in the current year to recover outstanding contributions recoverable since the preceding year. | -do- |
| (d) | A balance of contributions amounting to Rs.219,649,334 remained receivable as at 31 December 2020 and a sum of Rs.161,338,906 out of that representing a high percentage of 73 per cent was recoverable from the Education Employees' Co-operative Society Limited. The loan balances comprised balances older than 05 years totalling Rs.28,794,753 and a balance of Rs.190,854,581 receivable during a period from 01 year to 05 years. | Action is being taken in the current year to recover outstanding contributions recoverable since the preceding year. | Action should be taken to recover loan balances. |

(e) **Revolving Fund**

- (i) Out of the loan of Rs.290 million granted by the Fund in the years 2010 and 2011 for 09 Provincial Co-operative Societies, a sum of Rs.134 million was recoverable as at 31 December 2020. Moreover, the value of loans from which no monies whatsoever was recovered from the North Central Province after the year 2018, was Rs.5,826,500. Out of this loan, the 58th loan outstanding from the North Central Province was Rs.5,826,500. That all other Provinces are systematically paying as per agreements. -do-
- (ii) The Fund had granted Rs.152.5 million and Rs.25 million in the year 2011 respectively to the Co-operative Wholesale Establishment and the Sri Lanka Co-operative Marketing Association Limited. Only a sum of Rs.60 million had been recovered in the year 2012 from the Co-operative Wholesale Establishment and the loan balance further recoverable as at 31 December 2020 was Rs.92.5 million. No installment whatsoever was recovered in the year under review from the Sri Lanka Co-operative Marketing Association Limited, out of the sum of Rs.4.4 million recoverable as at 01 January 2020. The Chairman of the Co-operative Wholesale Establishment has been continuously notified and reminders sent as to settle the outstanding loan balance of Rs.92.5 million recoverable from the Co-operative Wholesale Establishment. -do-
- (iii) A sum of Rs.248,656,984 had been granted by the Fund for distributing essential food items in the year 2020 for It had been informed that the said expenditure incurred had been for the supply of essential goods Responsibility should be taken for incurring expenditure only for objectives for which

Covid-19 and only a sum of Rs.96,325,848 out of that had been recovered by 31 October 2020. The remaining sum of Rs.152, 331,136 had been indicated by deducting from the liabilities payable to the Fund.

from those co-operative societies due to unavailability of essential food items for Provincial co-operative societies as a result of the country's lock down with the Covid-19 pandemic which broke out unexpectedly in the country.

the Revolving Fund was established.

3.2 Operating Inefficiencies

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>(a) In terms of Section 43 of the Co-operative Societies Rules published by the Gazette Notification No.93/5 of 10 January 1974, every registered co-operative society should make a contribution of its net annual profit, Co-operative education, extension and publicity purposes, improving the management efficiencies of Co-operative Societies and rendering assistance to Co-operative Societies as activities for which monies could be utilized. Accordingly, the contribution of Co-operative Societies for the Fund in the year under review amounted to Rs.120,930,257 while the total expenditure was Rs.4,926,669. A sum of Rs.2,289,879 of this expenditure had been spent for expenses of Co-operative Day celebrations, amendment of Rural Bank Acts and training and no expense whatsoever had been incurred for rendering assistance to Co-operative Societies.</p>	<p>A sum of Rs.01 million had been allocated through the budget estimate of the year 2020 by the Co-operative Development Fund for rendering assistance to Co-operative Societies. However, no new projects were executed by the Societies during the Covid-19 pandemic situation which prevailed from March 2020 and requests therefor were not made by the Societies as well. As such, aid on behalf of projects could not be granted to societies.</p>	<p>Responsibility should be taken to act according to the Gazette Notification.</p>

- (b) According to the Action Plan of the year 2020, plans had been made to obtain 105 financial statements from co-operative societies. Nevertheless, only 54 financial statements had been obtained. Moreover, financial statements for the year 2017 had not been obtained relating to Co-operative Prison Department Sanasa Limited, Tea Producers' Association Limited, Fishery Co-operative Association and Public Service Graduate Sanasa Limited while the Public Service Sanasa and 14 other co-operative societies had not submitted financial statements after the year 2018 and for the year 2019 respectively.
- Co-operative societies/associations had to be closed due to the Covid-19 pandemic which prevailed in the country in the year 2020 and as such, there was a delay in the preparation of financial statements and based on the said reason, financial statements expected by the Action Plan could not be obtained.
- Responsibility should be taken to perform activities set out in the Action Plan.
- (c) According to the Audit Plan for the year 2020, audit of 111 financial statements had been planned. However, audit had been carried out and audit reports thereon had been issued only for 37 financial statements. Seventeen out of 37 audit reports issued had been financial statements prior to year 2020 and out of the 54 financial statements issued, audit of 34 financial statements had not been carried out and reports thereon had not been released.
- Forty six audit reports have been released in the year 2020 after auditing, out of 54 financial statements submitted in the year 2020 by societies and associations, only auditing of 08 financial statements had not been completed and reports thereon released by 31-12-2020.
- Responsibility should be taken according to the Audit Plan.