

## **Co-operative Surplus Fund - 2020**

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### **1. Financial Statements**

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#### **1.1 Disclaimer of Opinion**

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The audit of the financial statements of the Co-operative Surplus Fund for the year ended 31 December 2020 comprising the statement of 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(1) 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.

I do not express an opinion on the financial statements of the Fund due to effect of the matters described in paragraph 1.5 of this report. 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.

#### **1.2 Basis for Disclaimer of Opinion**

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My opinion is disclaimed 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 opinion.

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

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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 intends 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 the Audit of the Financial Statements**

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My responsibility is to conduct an audit of the Fund’s financial statements in accordance with Sri Lanka Auditing 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 and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### **1.5 Audit Observations on the preparation of Financial Statements**

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##### **1.5.1 Internal Control over the preparation of Financial Statements**

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The Fund is 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**

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The following observations are made.

<b>Non-compliance with reference to the relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Even though fully depreciated non-current assets costing Rs.4,757,296 had still been in use by the Fund, in terms of paragraph 65 of the Standard 7, the useful life of assets had not been reviewed annually and action had not been taken to revise the estimated error thereof in terms Standard 3.	Accounts had been rectified by finalizing the revaluations on 31 July 2021.	Action should be taken in terms of the Accounting Standard.
(b) The value of property plant and equipment had ben indicated as Rs.13,163,369 in the statement of financial position and even though it had been mentioned that the relevant particulars had	Assets have been classified and presented accurately in the schedule prepared after finalizing the revaluation	Action should be taken in terms of Accounting Standard.

been indicated under the Note 05, on 31 July 2021. necessary disclosures had not been made in terms of paragraph 86 of the Standard 7. Assets have been classified and presented accurately in the schedule prepared after finalizing the revaluation on 31 July 2021.

### 1.5.3 Accounting Deficiencies

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The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Even though computer software costing Rs.189,001 had been disclosed in financial statements as intangible assets as at 31 December of the year under review, the said software had been removed from being use at present and therefore, such an asset was not physically available. Even though the said matter was pointed out constantly by the Audit, action had not been taken to rectify it even in the year under review.	Accounts had been rectified by finalizing the revaluations on 31 July 2021.	Only assets confirmed as physically available assets, should be disclosed in the financial statements.
(b) According to the Register of Fixed Assets, the net value of property, plant and equipment had been Rs.1,464,194. However, it had been indicated as Rs.1,292,740 in the statement of financial position understating by Rs.171,454.	It had been rectified and journal entries had been presented along with the Annexure 04.	Action should be taken to indicate the accurate value in accounts.
(c) Even though the loan balance of Rs.20 million granted in the year 2013 to the National Institute of Co-operative Development, had been settled in the years 2015 and 2016, a balance of Rs.14,680,976 out of that, had been erroneously recorded as debtors in the year 2017 and as such, the said amount had been written off against the income of the year under review to rectify the said error.	Differences were observed between the active loan ledger and the schedule up to the year 2019 and as such, accounts of the year 2018 had been resubmitted by rectifying the said difference. The loan of Rs.20 million granted on 06.12.2013 to the National Institute of Co-operative Development has been settled and it is has been done only for the rectification of error in the schedule.	Action should be taken to identify the year on which the error had occurred and to make adjustments to relevant accounts accordingly.

#### 1.5.4 Suspense Accounts

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Item	Amount	Period in Suspense	Comments of the Management	Recommendation
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	<b>Rs.</b>			
Suspense Account	9,475,735	21 years	Action will be taken on recommendations of the Chief Accounting Officer to rectify the said difference brought forward for over a long period	Action should be taken to settle by identifying the balance in the Suspense Account.

#### 1.5.5 Lack of Documentary Evidence for Audit

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The following observations are made.

Item	Amount	Audit Evidence not made available	Comments of the Management	Recommendation
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	<b>Rs.</b>			
(a) Receivable Co-operative Society Loans	583,184,797	Confirmation balances	of Request letters were forwarded to Co-operative Societies for confirmation of balances and only 05 Societies had responded therefor.	Action should be taken to obtain confirmation of balances.
(b) Amount receivable from the Co-operative Fund	5,029,486	Confirmation balances	of Action will be taken to obtain confirmation of balances and to make available to Audit.	-do
(c) Receivable Treasury Loans	81,871,370	Confirmation balances	of A letter was forwarded to the Deputy Secretary to the Treasury to confirm this matter.	-do
(d) Payable Treasury Fund	150,000	Confirmation balances	of Action is being taken to forward to the Fund Committee and to obtain recommendations therefor.	-do

(e)	Payable National Trustee Fund	3,871,256	Confirmation of balances	Action is being taken to forward to the Fund Committee and to obtain recommendations therefor.	-do
(f)	General Deposit Account	10,779,292	Detailed schedules	Officers were instructed to submit expeditiously.	Action should be taken to submit schedules.
(g)	Fixed Deposit Guarantee Creditors	58,918,112	Loan files and confirmation of balances	Action is being taken to rectify it in the preparation of accounts of the current year.	Action should be taken to submit loan files and confirmation of balances.
(h)	Liquidated Accounts (Debit Balance)	2,620,473	Copies of the Liquidated Account prepared.	Officers were instructed to submit in the current year.	Copies of the Liquidated Account should be submitted.

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the Fund for the year under review had been a surplus of Rs.177,467,827 as compared with the corresponding surplus of Rs.192,948,274 for the preceding year, thus indicating a deterioration of Rs.15,480,447 in the financial result. The decrease in the interest income by Rs.2,002,364 and the increase in other expenditure by Rs.12,741,591 had mainly attributed to the said deterioration.

## 3. Operating Review

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### 3.1 Management Inefficiencies

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The following observations are made.

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a)	Action had not been taken to settle the balance of dishonoured cheques, valued at Rs.1,721,566 brought forward from the year 1999, indicated under various assets.	As recommendations had been made by the Secretary to the Ministry to write off the said balance, brought forward for a long period, it will be settled in future.	Action should be taken to settle the balance of dishonoured cheques.

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| (b) | Action had not been taken since the year 1987 to settle the balance of Rs.6,017,551 payable to the Surplus Fund, indicated under various liabilities in the statement of financial position.  | Recommendations have been made by the Secretary to the Ministry to write off the said balance, brought forward for a long period. As such, it will be settled accordingly.                         | Action should be taken to settle the payable amount. |
| (c) | Action had not been taken to settle recoveries from liquidated Societies, excess recoveries, and balances such as Co-operative Fund Western Province and Accounts Transfers indicated as a total sum of Rs.734,392 under liabilities payable.   | Action will be taken to settle them by forwarding to the Fund Committee.   | -do-   |
| (d) | Only a sum of Rs.22,611,959 out of the loan balance of active Co-operative Societies amounting to Rs.543,726,149 receivable as at 01 January 2020, had been recovered in the year under review. Moreover, only a sum of Rs.2,089,268 of the receivable loan interest of Rs.164,595,101, had been received during the year under review. | Eighteen loan files have been handed over to the Legal Division and action will be taken to forward those to relevant Provincial Co-operative Societies for the recovery of loan balances thereof. | Steps should be taken for recovery of loans.         |
|     | (i) Even though a loan of Rs.100 million, included in the said loan balances, had been granted in the year 2012 for the construction of a new building complex to the Co-operative Hospital Society Ltd – Kurunegala, only a sum of Rs.1,898,184 had been recovered from the said loan at the end of the year under review.             | A request has been made for an interest relief on loans and discussions have been held for rescheduling of loans.  | -do-   |
|     | (ii) Action had not been taken even by the end of the year under review to recover any amount from the loan of Rs.210,802,293 and the interest thereon amounting to Rs.87,119,041 granted to various Co-operative Societies and Associations, brought forward for over a period of 6 years.   | As per the decision taken by the Fund Management Committee, it was decided to reschedule these loans or to take legal action in terms of agreements.   | -do-   |