

National Institute of Co-operative Development - 2013

The audit of financial statements of the National Institute of Co-operative Development for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 the Section 13(1) of the Finance Act, No.38 of 1971 and Section 22 of the National Institute of Co-operative Development (Incorporation) Act, No.31 of 2001. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements 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 Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the National Institute of Co-operative Development as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 08

Expenditure totaling Rs.65,441 relating to the preceding year had been adjusted to the accumulated profit for the year under review as a prior year adjustment instead of being brought to account as a restatement with retrospective effect in terms of Sri Lanka Accounting Standard 08.

(b) Sri Lanka Accounting Standard 16

Even though the entire class of the asset should be revalued in the revaluation of property, plant and equipment, out of the fully depreciated property, plant and equipment costing Rs.45.19 million which are being used at present assets costing Rs.25.67 million only had been revalued.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka	

(i) Sections 2.1 and 2.4 of Chapter V and Public Administration Circular No.09/2007 of 11 May 2007	A full time serving officer of the Central Provincial Engineering Service Office had been appointed for the Consultancy Service for the construction of the Auditorium of the Institute without obtaining the approval of the Appointing Authority. The officer concerned

- had been re-employed in Public Service since his retirement without obtaining the approval of the Cabinet of Ministers.
- (ii) Section 2.5.3 of Chapter V Even though an officer temporarily released for service in a Public Corporation should contribute 25 per cent of the new consolidated salary to the Pensions Contribution Fund, it had not been so done.
- (b) Financial Regulation of the Democratic Socialist Republic of Sri Lanka
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- (i) Financial Regulation 71 A Consultant had been appointed only on the decision of the Board of Management without obtaining the approval of the Deputy Secretary to the Treasury. Consultancy payments amounting to Rs.1,240,000 at the rate of Rs.40,000 per month had been made for the period from 31 July 2010 to 31 July 2014.
- (ii) Financial Regulation 136 Expenditure amounting to Rs.130,300 had been spent on the Milk Villages Project without the recommendations of the Project Director or an Authorized Officer.
- (iii) Financial Regulation 169 Even though services should not be rendered before realisation of income, lecture halls, food, accommodation and printing charges facilities had been provided without charging fees. As such the outstanding income in respect of the year under review amounted to Rs.1,342,674.
- (iv) Financial Regulation 395(h) Even though the Bank Reconciliation Statement should invariably be prepared by an officer who has no connection with banking of collection, the writing of cheques or maintaining the cash book, contrary to that provision, one officer had attended to all those activities.
- (v) Financial Regulation 1646(b) Even though an Annual Board of Survey should be conducted of the motor vehicles and their equipment, it had not been so done.
- (vi) Financial Regulation 1647(e) A register containing detailed information of motor vehicles had not been maintained.

(c) Public Administration Circulars

(i) Circular No.02/99 of 26
February 1999

Even though providing mobile phones had been limited only to the Secretaries of Cabinet rank Ministries, contrary to that provision, two mobile phones costing Rs.42,990 had been supplied to the Chairman and the Director General of the Institute.

(ii) Circular No.21/2007 of 11
September 2007

Two officers of the Institute had proceeded abroad without obtaining approval of leave from the Prime Minister.

(d) Public Enterprises Circular No.
PED/12 of 02 June 2003
Section 8.2.3

Even though the prior approval of the Minister of Finance should be obtained for investment of money in fixed deposits, a sum of Rs.4.9 million had been invested in fixed deposits without such approval.

(e) Ministry of Finance Circular No.
MF/6/1/2/03 of 25 August 2003
and Public Enterprises Circular
No. PED/17 dated 28 October
2003

Even though officers proceeding abroad utilizing local funds should obtain the approval of the Director General of Public Enterprises, such approval had not been obtained for three foreign tours.

(f) Consultancy Services Guidelines
of the National Procurement
Agency of Sri Lanka.

The payments to the auditorium Consultant had not been made in accordance with the Guidelines on Consultancy Services issued in 2007 by the National Procurement Agency of Sri Lanka.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2013 had resulted in a deficit of Rs.706,772 as compared with the corresponding deficit of Rs.6,086,352 from the operations of the preceding year. As such an improvement of the financial results for the year under review, as compared with the preceding year amounting to Rs.5,379,580 was observed. The increase of the Government grants by a sum of Rs.5,703,066 and the increase of the income earned by the Institute by a sum of Rs.5,079,920 had been the main reason for the improvement.

4. Operating Review

4.1 Performances

The following observations are made.

(a) The key functions such as the promotion of research into the development of co-operatives and the provision of management of co-operative entrepreneurship and supply of professional advice to those in need of management skills envisaged through the establishment in terms of Section 4 of the National Institute of Co-operative Development (Incorporation). Act, No.01 of 2001 had not been achieved.

(b) Progress of Courses Conducted by the Institute

The following observations are made.

(i) Even though targets had been set for the conduct of 14 Vocational Diplomas during the year under review, only 08 courses out of that had been conducted. Out of the expected 243 applicants, only 162 had followed the course and represented 67 per cent progress.

(ii) Out of the 11 Certificate Courses targeted only 08 had been conducted. Out of the targeted number of 290 applicants 241 had participated and that represented 83 per cent progress.

(iii) Out of the 26 Short Term Management Development Courses targeted for the year under review, 22 courses had been conducted and as such that represented 85 per cent progress.

(iv) Seventeen Courses had been conducted at the request of Co-operative Societies and the other Co-operative institutions and 04 courses had been conducted free of charge or subsidy basis with the aid provided by the Co-operative Development Fund and the assistance of the People's Bank for the advancement of the Co-operative Sector. The conduct of those courses as compared with the preceding year revealed a decrease of 50 per cent.

(v) Even though 11 programs for providing assistance in connection with the professional examinations such as external degrees, Chartered Accountancy, Accounting Technicians and Chartered Management Accountancy commenced in the year 2011 had been conducted in the year under review, only 188 trainees had participated and that as compared with the year 2012 represented a decrease of 12 per cent.

(c) Income received from the Courses conducted by the Institute.

The following observations are made.

- (i) Even though the earnings from the Short Term Management Diploma Courses exceeding the targeted income had been earned, the income for the year under review as compared with the preceding year, had deteriorated by a sum of Rs.2,177,746 or 31 per cent.
- (ii) The actual income from the Courses on Regular Training, the Vocational Certificate and the Vocational Diplomas for the year under review, as compared with the targeted income had decreased by a sum of Rs.5,383,116 or 42 per cent.

(d) Co-operative Milk Villages Project

The following observations are made.

- (i) The project proposal for the Co-operative Milk Villages Project commenced in the year under review in accordance with the Department of National Planning Circular No.NP/3 dated 06 October 2013 had not been approved by the Department of National Planning and the provision therefor had not been made in the Annual Budget for the Year 2013.
- (ii) It had been stated that a sum of Rs.11,600,000 out of the estimate of Rs.20,000,000 would be contributed without the consent of the People's Bank , Co-operative Fund and the National Co-operative Development Institutions.
- (iii) Out of the estimate of Rs.3,600,000 for the year under review a sum of Rs.519,712 or 14.43 per cent only had been spent. As such an excess estimate had been prepared for the year.
- (iv) Even though the establishment of Milk Villages in the Kurunegala and Puttalam Districts of the North Western Province and Kagalle District had been planned under the first stage of the Project, that Project had not been implemented in the Puttalam District.
- (v) Even though a period of one year had elapsed after the commencement of the Project according to the Project Plan, a Performance Report on the manner of achievement of the targets of the plan had not been furnished. An examination of the expenditure incurred revealed that the activities targeted for achievement as at 31 December of the year under review according to the Action Plan had not been achieved.

4.2 Management Inefficiencies

The following observations are made.

- (a) The management had not taken action to obtain a title deed for securing the ownership of the land about 26 acres in extent shown as belonging to the Institute in the financial statements.
- (b) Action had not been taken for the recovery of a sum of Rs.793,272 comprising a sum of Rs.752,150 representing outstanding lecture hall fees, food and accommodation charges and

printing charges amounting to Rs.41,122 which remained outstanding over a period exceeding 2 years. The income further receivable had increased annually due to the failure to the implementation of internal control system promptly and the failure to pay due attention to the matters pointed out in the audit reports relating to several years.

- (c) A Labour Quarters of the Institute had been released to the Mahaweli Co-operative Society Ltd. free of rent over a period exceeding 11 years without entering into a formal agreement even by 31 December 2013. According to the economic rent assessment approved in terms of the letter dated 08 August 2007, of the Divisional Secretary, Patha Dumbara, the rent for 06 years and 05 months amounted to Rs.57,750 and action had not been taken for the recovery of the amount.
- (d) Courses income amounting to Rs.911,320 had been outstanding as at 31 December 2013 due to reasons such as the failure to implement a formal and adequate control system for the recovery of course fees, the lack of a policy based methodology for the recovery of course fees at the enrollment to the courses and the applicants not being aware of such methodology as the methodology had not been included in the Guidelines on Courses.
- (e) According to clause 16 of the lease agreement on the land, a percentage of the income from the crop of the land or income earned, as specified by the Director General should be credited to an account nominated by the Institute. Nevertheless the management had failed to take action accordingly from the year 2010 up to 25 July 2014.
- (f) A seedlings shelter and a sales booth had been constructed close to the main gate of the Institute on a request made by the Nuwara Eliya Agricultural Co-operative Society Ltd. without entering into an agreement. The area of the land used for the purpose had not been identified and a monthly rent of Rs.5,000 had been recovered with effect from April 2011 without carrying out a formal assessment.
- (g) No steps what so ever had been taken on the fixed assets valued at Rs.5,027,069 identified for disposal by the Board of Survey for the year 2012.

4.3 Operating Inefficiencies

The following observations are made.

(a) Consultancy Services for Auditorium

- (i) The Consultant should, from the date of appointment, supervise the work site continuously and the attendance should be marked in the log book. The correctness of the Attendance Register had not been subjected to supervision of an officer of the Institute and payments had been made for every month.
- (ii) According to the Consultancy Services letter, a qualified Technical Officer should be attached to the work site until the completion of the work of the building, But it had not been so done.

(b) Procurement of Services Facilities

- (i) The contracts for the supply of services relating to security, Janitorial and the canteen for the year under review had been awarded by the extension of the agreements of the contractor selected for the year 2011 based on irregularly obtained quotations, without inviting bids annually and evaluating such bids.
- (ii) The monthly charge Rs.224,930 for the supply of janitorial services according to the contract, had been informally increased by a sum of Rs.44,620 from January 2013 and as such a loss of Rs.535,440 had been caused to the Institute during the year under review.
- (iii) Even though the contract agreement on janitorial services prohibits sub-contracting the private firm which secured the contract had, contrary to that stipulation, granted a sub-contract to another private firm. The Institute had not taken any action in this connection.
- (iv) The monthly charge of Rs.213,000 according to the contract agreement for the supply of security services, had been increased by a sum of Rs.42,000 with effect from January 2013 and as such, a loss of Rs.504,000 had been caused to the Institute during the year under review.
- (v) Even though the firm should furnish a bond for Rs.50,000 in terms of clause 2 of the contract agreement for the supply of security services, the Institute had not taken any action for obtaining such bond even by 31 July 2014.

4.4 Transactions of Contentious Nature

Even though a member of the Board of Directors of the National Institute of Co-operative Development was scheduled for participating in the Sixteenth Indian Co-operative Conference held from 25 to 26 June 2013 in New Delhi, India, according to the letter No.MF2/57/NICD dated 12 June 2013 of the Deputy Secretary to the Treasury, an officer removed from the membership of the Board of Directors had participated in the conference. The participating of an external officer serving as the Accountant of the Sri Lanka Customs had resulted in the Institute being deprived of the benefits of experience gained at the conference. The expenditure of Rs.268,638 incurred thereon had been fruitless.

4.5 Idle and Underutilized Assets

The following observations are made.

- (a) Seven items of goods in quantities ranging from 30 to 520 in the stores of which value had not been recorded and unusable Office furniture, Computers and Parts of an internal telephone system had been idling and stacked in the rear section of main hall, the corridor of the old building and in the unused room of Lecturers.

- (b) No course of action whatsoever had been taken out the stock of goods identified as unusable by the Board of Survey of the Audio Visual Section in the year 2012.

4.6 Staff Administration

The approved and the actual staff of the Institute had been 71 and 30 respectively and as such 41 vacancies existed. Even though approval under Financial Regulation 71 had been granted for filling of those vacancies action therein had not been taken.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 02 of the Public Enterprises Circular No.PE/PF 21 dated 24 May 2002, the financial statements should be presented to the Auditor General within 60 days after the close of the year of account. Nevertheless, the financial statements for the year 2013 had been presented to the Auditor General only on 22 June 2015.

5.2 Internal Audit

Even though an Internal Audit Unit should have been established in terms of paragraph 3 of the Management Audit Circular No. DMA/2009(1) of 09 June 2009, it had not been so done. As such none of the internal audit functions had been carried out. Attention had not been taken to get the internal audit work done by the Internal Audit Unit of the Ministry.

5.3 Budgetary Control

Significant variances were observed between the budgeted expenditure and the actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.4 Unsettled Audit Paragraphs

The Audit Paragraphs pointed out in the previous audit report on which adequate attention had not been paid are given below.

Reference to Audit Paragraph of
the year 2012

Summary of the Audit Paragraph

(a) 4.1 (a)

The main functions to be achieved by the incorporation by the Institute in terms of Section 4 of National Institute of Co-operative Development. Act, No.01 of 2001 had not been achieved.

(b) 4.4 Uneconomic
Transactions

Even though a Consultant outside the approved cadre of the Institute had been recruited on contract basis and paid a sum of Rs.360,000 as consultancy allowance in 2012 for

the promotion of courses relating to the Information Technology subject, the objective concerned had not been achieved.

(c) 4.6 Deficiencies in
Contract Administration

(i) Construction of
the Auditorium

Disciplinary action had not been taken against the consultant who provided consultancy Services without approval while being in the Public Service and obtained fees amounting to Rs.2.15 million.

(ii) 5.2 Internal Audit

An Internal Audit Unit had not been established in terms of Financial Regulation 133

6. System and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Income Management
- (c) Assets Management
- (d) Construction and Services Supply Contract Administration
- (e) Human Resources Management