

National Institute of Cooperative Development - 2014

The audit of Financial statements of the National Institute of Cooperative Development for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 22 of the National Institute of Cooperative Development (Incorporation) Act, No.1 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 Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that, I comply with the 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 judgement, including the assessment of the risks of material misstatements 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. Subsections (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 Cooperative Development as at 31 December 2014 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.

Sri Lanka Accounting Standard 16

Even though the cost of the Auditorium amounting to Rs.359,116,705 converted to the usable condition on 13 November 2014, only a cost of Rs.272,659,213 had been brought to account. Accordingly, unidentified cost amounting to Rs.86,457,492 had not been paid even by 10 June 2016 on the delay of recommendation of the Cost estimate investigating committee and the approval of the permanent Technical Committee. A provision had not been made in the financial statements in terms of the Sri Lanka Accounting Standard 37. Further, depreciation for the total cost had not been brought to account.

2.2.2. Accounting Deficiencies

A sum of Rs.48,000 recoverable for the usage of Holiday Resort of the Institute had not been brought to account.

2.2.3. Lack of Evidence for Audit

Letters of confirmations in respect of total debtors' balances of Rs.4,575,270 and creditors' balances of Rs.8,595,615 had not been presented to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the receivable course fees totalling Rs.1,718,377, a sum of Rs.665,131 and a sum of Rs.89,122 had lapsed for over one year and over 5 years respectively.

(b) Balances of Rs.248,468 out of the receivables from the external training programmes totalling Rs.1,734,833 had been older than 5 years and printing charges receivable amounting to Rs.11,776 were balances lapsed over 3 years.

(c) Out of the income received in advance amounting to Rs.26,121,790 for a period from 1 to 5 years and a sum of Rs.79,615 had not been settled for over 5 years.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions.

The following instances of non-compliance were observed.

Reference to Laws, Rules etc. -----	Non-compliance -----
(a) Public Administration Circular No.02/99 dated 26 February 1999	Even though the provision of Mobile phones had been limited only to the Secretaries to the Ministries, a mobile phone had been purchased by spending a sum of Rs.28,000 to the Director General in the year under review.
(b) Public Administration Circular No.22/99 dated 08 October 1999 and Public Finance Circular No. PF/PE14 dated 28 February 2001	Fuel expenses amounting to Rs.192,939 for 12,833km had been incurred for the usage of pool vehicle for the Chairman who had used an allocated vehicle in the year under review, contrary to the Circular provisions.
(c) Section 8.2.3 of Public Enterprises Circular No. PED/12 of 02 June 2003.	A sum of Rs.6,290,515 had been invested without obtaining the prior approval of the Minister of Finance and the Minister in charge of the subject.
(d) Procurement Guidelines dated 25 January 2006	
(1) Section 1.2.1(c)	Even though the equal opportunities should be given to the suppliers in the procurement, contrary to that, the procurement decision for the Memorandum of Understanding entered into with a private Institution on 15 November 2013 for the National Programme of computerization of Cooperative Societies had been received on 09 April 2014.
(ii) Section 3.6	The contract on all cleaning activities and beautification of garden had been awarded to a Private Company affiliated to a State Corporation in the year 2011. The period of contract with that company had been extended and entered into agreement without calling for quotations for the years 2012, 2013 and 2014.

- (e) Public Finance Circular No. 02/2014 dated 17 October 2014 Even though Boards of survey for a year should be appointed before 15 December in every financial year and reports should be provided before 29 January in the following year, action had not been taken accordingly.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the operating activities of the Institute for the year ended 31 December 2014 had been a loss of Rs.5,786,121 and the corresponding loss for the preceding year amounted to Rs.706,772, thus indicating a deterioration of Rs.5,079,349 in the financial result for the year under review as compared with the preceding year. The increase of recurrent expenditure by Rs.7,865,518 in the year under review had mainly attributed to this deterioration.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The progress of the courses conducted by the Institute as compared with the preceding year was as follows.

Course	2014		2013		Progress of achievement of targets as a percentage (According to Trainees)		
	-----		-----				
	Targeted		Actual				
	No. of courses	No. of trainees	No. of courses	No. of trainees			
	-----	-----	-----	-----	-----		
Permanent Training Courses	06	249	03	143	04	161	57
Diploma Courses	17	300	09	178	08	162	59
Certificate Courses	15	350	11	169	08	241	48
Short-term Management Development Courses	31	625	16	435	22	577	70
Courses conducted on the request of external Institutes	-	-	07	360	17	558	-
Courses conducted under Peoples Bank assistance	-	-	10	359	04	155	-

External Degrees and vocational Assisting Programmes	14	350	11	187	10	188	53
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Total	83	1874	67	1831	73	2042	
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- (i) Even though 54 permanent Training Courses, Diploma courses and short term Management Development Courses with the participation of 1174 trainees in the year under review had been planned, only 28 courses with the participation of 756 trainees had been conducted. Thus it was 48 per cent of the targeted courses. Thirty four such courses had also been conducted in the preceding year and it was observed that conducting such courses in the year under review had been at a weak level.
- (ii) Even though the prime function of the Institute was to perform the academic and training activities and provision of relevant facilities, conducting computer courses successfully had been problematic due to non-provision of network facilities to the computer laboratory at the Head Office premises.

(b) The income received from courses conducted by the Institute in the year under review appears below as compared with the preceding year.

Course -----	2014		2013 Actual	Progress of achieving targets as a percentage -----
	Targeted	Actual		
	Rs.	Rs.	Rs.	
Permanent Training Courses	2,149,472	1,642,735	1,499,233	76
Diploma Courses	5,829,500	3,807,500	3,600,800	65
Certificate Courses	5,370,500	1,278,800	2,283,676	24
Short-term Management Development Courses	9,786,500	7,209,629	4,836,581	74
Accounting Vocational Courses Assisting Programmes	6,372,000	1,747,597	1,828,470	27
External Degree Courses	4,760,000	448,750	916,200	09
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Total	34,267,972	16,135,011	14,964,960	
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The following observations are made in this respect.

- (i) Since the commencement of new courses in other fields inclusive of computer field instead of conducting Cooperative Certificate Course by the National Cooperative Board of Sri Lanka, income expected from certificate courses anticipated to conduct in the year under review by the Institute had decreased by Rs.4,091,700 representing 76 per cent.
- (ii) A decrease of Rs.8,935,653 representing 80 per cent of the actual income was observed as compared with the targeted income from External Degree courses and Assisting programmes for vocational courses in Accounting due to increase of Course fees.

4.2 Management Activities

The following observations are made.

- (a) Even though the construction work of the Auditorium of the Institute commenced in August 2001 at a cost estimate of Rs.44.5 million and should have been completed in April 2003, had not been completed even by 14 February 2005. Construction work had been stopped in halfway as the roof of the Auditorium had been collapsed. However, remaining construction works inclusive of the completion of roof works had been assigned to the Central Engineering Consultancy Bureau in the year 2009 on a new cost estimate of Rs.113 million. The following observations are made in this regard.
 - (i) The constructions had been stopped by May 2012 as a result of the amendments made to the construction plans of the Auditorium from time to time and the institute had entered into agreement again with the Central Consultancy Bureau to commence the construction work in December 2012 and to complete on 31 March 2013. When the Auditorium had been planned to open on the scheduled date, then Minister in charge of the subject, Secretary to the Line Ministry and the Director General of the Institute had instructed to make the following alterations in the field inspection made on 06 June 2013. As the expenses incurred by the Institute amounting to Rs.9,200,392 and Rs.14,141,823 before and after respectively making these alterations for the changed items, it was observed that expenses incurred previously as a fruitless expense.
 - Unfixing the Aluminum windows and doors and fixing tempered glasses and putting curtains as to match them.
 - Complete alteration of inner and outer coatings of painting.
 - Removal of tiles and sanitary equipment of the toilet system and fixing other luxury equipment.
 - (ii) The items removed due to the alterations referred to above have kept idle at an old office building and had been brought to account as a part of the total cost.

- (iii) In disposing the items costing Rs.4,107,280 from the Auditorium, the relevant report from the Engineer who certified bills had been obtained instead of a report from an independent Valuer. Accordingly, as a sum of Rs.1,486,745 obtained from the sale of items, loss incurred was Rs.2,620,535. Except crediting the sales value to the Capital Work- in – progress Account, cost and loss incurred thereof had not been adjusted to the accounts. Further, action had not been taken in terms of Financial Regulations 102, 103 and 104.
 - (iv) Even though a sum of Rs.500,000 had been estimated for the plaque designed by cutting and polishing a block of a natural rock, a sum of Rs.2,128,195 had been spent, thereon.
 - (v) The expenditure incurred for this Auditorium completed on 13 November 2014 amounted to Rs.369.1 million as at 31 December 2014. A Cabinet appointed Procurement Committee required to obtain recommendation of the Cost Estimate Investigation Committee for a sum of Rs.86.4 million out of it had not been appointed even by 05 August 2015 according to the decision No. 012/540/1480/13 dated 12 November 2013 of the Cabinet of Ministers.
 - (vi) Even though after opening the Auditorium in November 2014, the contract had been awarded and a sum of Rs.420,895 had been paid to a Private Company without an agreement irrespective of the facts mentioned in paragraph 6.3.2 of the Procurement Guidelines 2006 and without any intervention of the Central Engineering Consultancy Bureau and the officer of the District Secretariat with expertised knowledge appointed to control termites on the floor between its seats, movement of termites were observed between the carpets of the Auditorium floor even on 10 August 2015. It was further observed that this situation had arisen due to non-application of termiticides with due standard in laying foundation of the Auditorium.
 - (vii) Even though the expected income from the Auditorium according to the Action Plan in the year under review was Rs.6,500,000, only a sum of Rs.175,000 could be able to earn by 31 December 2014. This was only 2.6 per cent of the expected income. The income deprived by providing space and facilities at concessionary rates at three instances to hold a workshop of Samurdhi beneficiaries and for a Montessori Function free of charges without the approval of the Board of Directors was Rs.1,163,500.
- (b) Action had not been taken to acquire properly and account a building of the Institute modernized by spending a sum of Rs.7,640,378 by the Department of Cooperative Development in the year under review.

4.3 Transactions with contentious nature

Consultancy Service

The following observations are made.

- (a) A Computer Instructor had been appointed for a period of one year on 01 January 2012 in order to improve the Computer Division of the Institute to a higher level than the existing level. This recruitment had been made without formal invitation of suggestions according to the guideline 3.6

of the Guidelines of Consultancy Services and without the approval of the Treasury, in terms of Section 9.8.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 on good governance. .

- (b) The Consultancy fee paid for the years 2012, 2013 and 2014 at the rate of Rs.30,000 per mensem as instructors allowance without an approval of the Treasury in terms of Financial regulation 71 amounted to Rs.1,080,000. A sum of Rs.720,000 out of it had been paid without an agreement. A sum of Rs.50,433 had been paid for 269 hours not performing duties. Lecture fees of Rs.52,400 had also been paid for lecturing in 4 courses of the Institute without a proper authority during the period, provided consultancy services.
- (c) Only the introduction of a Diploma course on computer hardware and revision of the existing syllabus of certificate course on computer hardware had been done during the period of provision of 3 year consultancy services. The project report which should have been presented as per the agreement had not been presented. Further, the appointment of the consultant had been terminated on 31 December 2014 and appointed as a visiting lecturer in the year 2015 without making a formal recruitment.
- (d) The officer appointed as a Computer Programming Officer of the Institute had introduced only a computer programme for the monthly timetable structure of the lecturers of Institute for the preceding 05 years. Furthermore, the evidence for utilization of this programme for the activities of the Institute was not made available. Despite this Computer Programmer, drawing a permanent salary in the Institute was in service, a Computer Instructor as referred to above had been recruited during the period 2012 – 2014 and a sum of Rs.1,080,000 had been paid as consultancy fees. Further, the development of the Computer programme for evaluation of production cost of medicine along with the Consumer affairs Authority had been assigned to a Private Institute, the total income deprived to the Institute was Rs.1,975,000. Thus, the total loss incurred to the Institute amounted to Rs.3,055,000.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) An Auditorium System, 54 Sheet Rolls and 02 Mobile phones purchased in the years 2009, 2010 and 2013 remained idle in the Stores and the values of these had not been documented.
- (b) Despite Multimedia, Loudspeakers and Laptop computers of the Audio visual Division of Institute could have been used, they had been obtained on rental basis from external parties without a procurement procedure and a rent amounting to Rs.29,400 had been paid in the year under review.

4.5 Identified losses

The following observations are made.

- (a) As a sum of Rs.184,500 out of Rs.246,000 receivable as accommodation charges from 37 beneficiaries participated in the programme conducted in December in the year under review by the Development Institute jointly with the Centre for International Co-operation and training in Agricultural Banking in India had been recovered, the loss incurred to the Institute was Rs.61,500.
- (b) Bank Draft amounting to US \$ 3,000 issued on 28 August 2014 to the Asian Cooperative Credit Conference in Thailand for the programme on exchanging experience of loan granting Cooperative societies had been cancelled and reissued on 01 September 2014, the Bank had recovered a fee of Rs. 10,712 due to the effect of foreign exchange and audit had observed such amount as a loss incurred to the Institute.
- (c) As the Institute had entered into an agreement for Rs.58,650 per mensem over the contract amount in the agreement entered into in 2014 with a private Company affiliated to a Public Corporation in the year 2013 for the cleaning service Contract, the loss incurred to the Institute was Rs.703,800.

4.6 Utilization of Vehicles

Two vehicles of the Institute had been given to the Personal Staff of the Minister without a formal approval and had been run 16.547 kilometers in the year under review. Even though income from bus hire charges amounting to Rs.876,230 had to be recovered accordingly, action had not been taken either to recover such amount or to bring it to account.

5. Accountability and Good Governance

5.1 Internal Audit

Even though an Internal Audit Unit should have been established in terms of Management Audit Circular No. DMA/2009/(1) dated 09 June 2009 and Financial Regulation 133, it had not been done so. Thus, any internal audit functions had not been carried out. Further, the attention had also not been paid to get it audited through the Internal Audit Unit of the Ministry.

5.2 Unresolved Audit Paragraphs

Audit paragraphs for which sufficient attention had not been paid, are shown below even though they had been pointed out in the preceding Audit report.

Reference to Audit paragraph of the year 2013

Summary of Audit paragraph

(a) 4.1 (a)

The main functions expected to be fulfilled by incorporating the Institute in terms of Section 4 of the National Institute of Cooperative Development (Incorporation) Act, No.1 of 2001 had not been performed.

(b)4.3(b)(iii) Operating inefficiencies Even though the sub contract could not be awarded according to the conditions of the Agreement of providing cleaning services, contrary to it, sub contract had been awarded to another private Institute by the private company by which the contract was received and any action had not been taken in this regard.

6. Systems and Controls

Weaknesses 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) Financial Control
- (c) Assets Control
- (d) Contract Administration
- (e) Human Resource Management