

National Institute of Cooperative Development – 2017

The audit of financial statements of the National Institute of Cooperative Development for the year ended 31 December 2017 comprising the statement of Financial Position as at 31 December 2017 and the statement of financial performance, statement of changes in equity and statement of cash flows for the year then ended and the 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 Act (incorporated) 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. A detailed report in accordance with the Section 13(7) (a) was sent to the Chairman of the Institute on 14 August 2018.

1.2 Responsibility of the Management for 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 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 risk 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 Foundation'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 institution'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 the financial statements. Section (3) and (4) 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 paragraphs 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 2017 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

Sri Lanka Accounting Standard 16

According to the paragraph 31 of the standard a revaluation had not been done in respect of land and buildings after the year 2001 thus those assets had not been presented in their carrying value in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- a) Out of the grant of Rs.30,980,000 received from the treasury for recurrent expenditure for the year under review, only a sum of Rs.30,610,443 expended during the year had been shown in the comprehensive income statement and the unexpended amount of Rs.369, 557 had been shown under the payables.
- b) A sum of Rs 247,226 payable for building renovations during the year under review had not been taken in to accounts.
- c) Lawyer's charges of Rs.66,000 which should be adjusted for the previous years had been adjusted to the profit of the year under review.

2.2.3 Lack of evidence for audit

Asset registers and schedules had not been furnished to audit in respect of non - current assets totaled Rs. 746,737,795.

2.3 Receivable and Payable Accounts

The following observations are made.

- a) The total amount of 6 balances of receivable accounts as at 31 December of the under review amounting to Rs.4,675,883 consists with a total of balances remaining in a period of 1 to 5 years amounting to Rs.3,189,691 and balances unsettled over a period more than 5 years amounting to Rs.1,486,192.
- b) A stall of the multipurpose building owned by the Institute had been leased to the cooperative co-op city shop and estimated rent of Rs. 237,895 should be received for March to August 2017 for the stall.
- c) The receivable balance of VAT from the Department of Inland Revenue amounting to Rs. 37,622,639 which had been brought forward from the year 2005 had not been settled even in the year under review.
- d) The total amount of 5 balances of payable accounts as at 31 December of the year under review amounting to Rs.75,513,623 consists with a total of balances remaining unsettled in a period of 1 to 5 years amounting to Rs.28,139,418 and balances unsettled over a period more than 5 years amounting to Rs.47,374,205.

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

The following non- compliances were observed.

Reference to laws, Rules and Regulations	Non – compliance
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(a) <u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u> Financial Regulations 757 (2) and section 3 of the Public Finance Circular No.05/2016 dated 31 March 2016.	The copies of the Board of Survey reports had not been furnished to the Auditor General after carrying out the board of survey for the year under review.
(b) Paragraph 3 (iv) of the Public Administration Circular No.11/2006 dated 14 July 2006	Although 2040 liters of fuel had been used in the year 2017 for the cab assigned to the Chairman, monthly summaries of running charts had not been submitted.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2017 had resulted in a surplus of Rs.2,509,280 and as against to the deficit of Rs.3,671,542 in the preceding year, thus indicating an increase in the financial results by Rs.6,180,822. Increase of the revenue by Rs.7,708,790 had mainly effected to the above increase.

Even though financial deficiency of Rs.706,722 existed in the year 2013 had further deteriorated up to Rs.5,786,120 for the year 2014 in the analysis of the financial results for 04 preceding years and the year under review it was increased up to a surplus of Rs.1,156,557 in the year 2015 and further a deficiency of Rs.3, 671,542 had existed for the year 2016 and a surplus of Rs.2, 509,280 had existed for the year 2017. However, considering the adjustments of depreciation for non-current assets made to the financial results the contribution of Rs.10,033,116 for the year 2013 had continuously increased up to Rs.33,845,710 for the year 2015. Even though the contribution had deteriorated up to Rs. 26,806,656 for the year 2016, It had increased up to Rs.33,721,332 for the year 2017.

3.2 Legal Cases filed by the Institute or against to the Institute

The following observations are made.

- a) Three cases had been filed against to the Institute by 3 external individuals to restore the service and to obtain compensation.
- b) A case had been filed by the Institute to recover the outstanding house rent of Rs.425,406 receivable from an officer who served to the Institute and retired and died for the period he reside in a government residence.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

- a) Although the corporate plan had been prepared for the period from 2013 to 2017, only the objectives relating to educational activities had been included in the plan. An analysis of the capacity had been furnished, weaknesses had not been identified.

- b) i Although the total expenditure for development activities had been shown in the annual budget, separate expenditure for each project had not been presented.
- ii. A human resources development plan had not been presented along with the annual action plan for the year under review and out of 33 officers of the institute, only 7 officers had been sent to external training programs for 7 days during the year under review.
- iii. A plan for refunding loans which should be presented along with the annual action plan, had not been presented and actions had not been taken to refund the loan amounting to Rs.25, 000,000 obtained from the cooperative fund.
- iv An Annual action plan had not been prepared as compared with the annual budget thus adequacy of estimates could not be identified.

4.1.2 Operating and Review

The following observations are made

- a) According to the section 4 of the National Institute of Cooperative Development Act (incorporated) No.1 of 2001, objectives of the institute had not been achieved sufficiently details are given below.
 - (I) Although the institute should be acted as a center to promote and coordinate activities relating to the cooperative development, cooperative certificate course and cooperative diploma course had only been conducted with time delays.
 - (II) Although training should be provided using modern techniques, courses had been conducted using traditional teaching methods without using modern techniques.
 - (III) Although research relating to cooperative development should be promoted, any research had not been carried out during the year under review and the posts of the researcher and the assistant researcher were vacant during the year under review.
 - (IV) Although the cooperative enterprises which are in the need of management skills should be taken over and managed, attention had not been paid in respect of said objective and it was observed in the examination carried out in respect of cooperative enterprises that out of 9951 cooperative societies in 7 provisions, only 5996 societies were activated and 3955 societies were in the position of deactivated.
 - (V) Although professional instructions should be given to cooperative enterprises, such service had not been given.
 - (VI) Although model cooperative villages and trade centers should be established, only a milk village project had been implemented in the year 2013.. However it

had not activated and attention of the top management had not been paid on this objective.

- b) According to the section 13 of the National Institution of Cooperative Development (Incorporated) Act No.01 of 2001, actions had not been taken by the Board of Study of the Institute to carry out duties relating to prepare training and research programmes and to develop subject series and matters for the courses conducted by the Institute.
- c) The progress of the training courses and accessory programmes conducted by the Institute during the year under review as compared with the previous year is given below.
 - (I) Although it had been planned to conduct 21 short term training courses during the year under review, only 19 courses had actually been conducted.
 - (II) Even though a sum of Rs. 440,253 was saved out of the peoples bank grant received for conducting training programmes, it had not been planned to be commenced training programmes under the peoples bank grant during the year under review.
 - (III) Even though courses had been conducted free of charge for improvement of cooperative field in previous years, conduction of such courses had been relinquished during the year under review.
- d) Performance indicators which should be prepared according to the Professional Training Guide of the Institute had not been prepared thus the completion level of the activities included in the annual action plan could not be measured.
- e) Although it had been expected to establish a research section attached to the study section in order to carry out duties relating to cooperative researches as per the Training Guidance of 2017 and 2018, it had not been implemented.
- f) The income of the audio and visual section had fallen down from Rs.833, 501 to Rs.152, 360 from the period of the year 2012 to the year 2017. Even though 65 courses had been conducted by the Institute, the audio and visual section consists with modern equipment had only been used for 4 courses during the year 2017 in respect of institutional training requirements.
- g) Nine short term professional training courses planned to earn a sum of Rs.1, 786,500 in the year 2017 had not been conducted.

4.2 Management Activities

The following observations are made.

- a) Actions had not been taken to increase the number of trainees through a wide advertising, because a sufficient number of trainees were not participated to the professional training courses conducted by the Institute.
- b) The circuit bungalow of the institute had been renovated in a luxurious level incurring a sum of Rs. 16,000,000 in the year 2014 and it had been reserved only for the ministers and their staff. As a result, the income earned during the year under review was Rs.29,965 only and the income had dropped gradually from Rs.588,595 to Rs.29,965 during the period of 5 years from 2013 to 2017.
- c) The estimated income of Rs.187,200 had loss to the government due to non-recovering of rent from the government resident No.p-12 for a period of almost 11 years which was rented out to the Mahaweli Cooperative Society without an agreement.

4.3 Operating Activities

The following observations are made.

- a) The balance of Rs.238,855 carried forward from the year 2007 relating to the account opened for the effective competition which was held in the year 2007 and the year 2009 had been remained in the bank account for a period of 10 years without being used for any fruitful activity.
- b) The training Guidance had been prepared without determining the number of trainees to be participated to each course which was expected to conduct during the year under review.
- c) Although a sum of Rs.5,616,000 had been planned to earn as income from the auditorium consisted with modern facilities according to the budget for the year 2017, only a sum of Rs.4,968,750 had been earned in 17 instances.

4.4 Transactions in Contentious Nature

The provision received from the Department of National Budget amounting to Rs. 7,000,000 for the renovation of residences during the year 2015 had been utilized to renovate the library.

4.5 Underutilization of Funds

The following observations are made.

- a) Out of the provision of Rs.6,000,000 received in the year 2014 from the Department of National Budget for the project of development of the standard of the training courses of the Institute, a sum of Rs.3,498,291 had been remained in the current account as at 31 December 2017 without using for any purpose of targets to be achieved.

- b) Out of the provision of Rs.68,445,000 received in the year 2014 and 2015 for the constructions of auditorium, a sum of Rs.38, 445,000 had been remained in the current account up to 31 December 2017 without being spent.

4.6. Idle and underutilized Assets

The following observations are made.

- a) Seven office rooms of the old building of the Institute No. B-13 had been remained idle without being used from the year 2008 and estimated house rent of Rs.214, 027 had lost to the government because the residence scheduled in the name of the Director General was not being used for the period from 05 January 2015 to 31 December 2017. It was revealed in audit that recruitment of officers on secondary basis for the service of the post of Director General had been affected to the above situation.
- b) Three government residences had been closed from the year 2012 to the year 2017 without being used and estimated income of Rs.270, 850 had lost to the government.
- c) The cooperative co-op city trade center established in the multipurpose building had been closed and remained idle since September 2017 and actions had not been taken to lease to an external party thus an estimated income of Rs.240, 000 had lost.

4.7 Identified Losses

A motor vehicle belongs to the Institute which had faced to an accident on 01 June 2014 had been repaired incurring a sum of Rs.247,332 without an examination being done by an mechanical engineer and without obtaining an estimate relating to the repairs. However the vehicle had to be run only 1332 kilometers due to failures of the repairs after the accident and the vehicle had remained idle. Although a completion report should be submitted within 3 months since the date of the accident according to the financial regulation 104 (4) in respect of the above accident, a completion report had not been submitted even up to 29 June 2018.

4.8 Commencing projects in the lands not acquired properly

According to the Financial Regulation 315 (1) the land 26 acres in extent which the institute was situated had not been acquired and the land had been captured without permission by the owners of the adjoining lands. Actions had not been taken by the Institute to secure the property and to take necessary legal actions.

4.9. Staff Administration

The following observations are made.

- a) There were 36 vacancies of 16 approved posts and actions had not been taken to fill those vacancies even up to the end of the year under review.

- b) Without being paid attention of authorities to recruit permanent officers to the posts of Director General and the Director (Study and Development), officers had been recruited on secondary basis from the year 2001. Hence the vision of the Institute to be established a cooperative enterprise with sustainable existence and filled with global coordination consists with innovation and modernization could not be reached.

4.10 Vehicle Utilization

Actions had not been taken to assign the ownership of the cab which had been purchased under the finance lease and paid the total leasing instalments.

4.11 The Market Share

The following observations are made.

- a) Out of 84 computers of the computer lab 77 per cent had been purchased in the year 2010 and older than 5 years. Central processing units with expired technology had been used thus attraction of trainees was minimized because the targeted team was educated up to G.C.E (ordinary level), aged over 16 years and with more computer knowledge.
- b) Although it was mentioned in the training guideline that the professional training unit is implementing as resource education center of 3 institutions, any professional course had not been commenced with those institutions even up to 5 February 2018.
- c) Various marketing promotional strategies had not been used to attract targeted teams and to keep the courses of the institute in minds.

5. Achievement of Sustainable Development Goals

All Statutory Institutions should functioned in accordance with the 2030 Agenda for Sustainable Development adopted by the United Nations and the National Institute of Cooperative Development had not aware as to how to act with respect of activities under their purview for the year under review.

6. Accountability and Good governess

6.1 Presentation of Financial Statements

According to the paragraph 6.5.1 of the Public Enterprises Circular No:PED/12 dated 02 June 2003, financial statements should be presented to the Auditor General within 60 days after the financial year. However financial statements for the year 2017 had been presented by the Institute on 27 March 2018.

6.2 Internal Audit

Although an internal audit unit was implemented in the institute, the management had not paid the attention to rectify the internal control weaknesses shown by the internal audit unit.

6.3 Procurement and Contracts Process

6.3.1 Procurement

The following observations are made.

- a) Dates of commence and completion had not been mentioned relating to the procurement activities planned according to the annual procurement plan.
- b) The camera system for the auditorium, television and franking machine which were planned to be purchased according to the procurement plan for the year under review had not been purchased even up to 31 December 2017.
- c) The minimum bid of Rs.911,342 presented for purchasing office equipment had been rejected and purchasing had been made in the institute of which presented the bid over Rs.167,658 than the lowest. However reasons for rejecting the lowest bid had not been furnished to audit.
- d) Although a provision of Rs.7 million had been made by the treasury for renovation of government residence which had been planned in the annual action plan, it had not been done during the year.

6.4 Uneconomic Transactions

The new wiring of the electricity system of the New Rathnayaka Hostel at the estimated value of Rs.2, 151,777 had been done incurring a sum of Rs.2,276,256 under the treasury grant in the year 2016. However electricity disconnection was occurred after the new wiring as the prior condition thus the total amount utilized in this regard had become fruitless.

6.5 Budgetary Control

The following observations are made.

- a) Instead of being implemented to achieve budgeted targets through a correct and realistic budget, the budget had been reviewed and amended as match as to the objectives fulfil and an amended budget had been furnished to audit on 03 August 2017.
- b) Variations were observed from 10 per cent to 540 per cent relating to the actual income and expenditure of 17 items compared with the budgeted income and expenditure.

6.6 Unresolved Audit Paragraphs

Action had not been taken to recover a sum of Rs.1, 034,765 from relevant parties for running 14, 644 kilometers the bus belongs to the institute for travels which could not be taken under the duty in 59 days from 22 January 2012 to 03 January 2015 without the approval of the Board of Council.

6.7 Fulfilment of Social Responsibility

The following observations are made.

- a) The institute supplied the service for cleaning and development of garden had not supplied necessary chemicals and equipment according to the agreement and had not supplied a proper service as well.
- b) The old oil tank in front of the residence of the residential manager in the premises of the institute had become wilderness and bottles, polythene and other garbage had been disposed into it. The possibility of adverse effects which can be occurred to the external beauty, health of the officers and residents and breeding mosquitos cannot be ruled out in audit.

7. Systems 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.

Areas of Systems and Controls	Observations
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a) Fixed assets	Fixed assets register not being maintained. Board of Survey not being conducted and underutilization of fixed assets.
b) Stores Administration	Assigning duties of the stores to a karyala karya sahayaka, and registers of the stores not being maintained properly.
c) Staff Administration	Vacancies not being filled, educational and professional qualifications not being got confirmed, efficiency bar examinations not being held timely, salary increments and promotions not being provided as scheduled.
d) Contract Administration	A procurement plan not being prepared for construction, allocations for construction projects not being used timely.
e) Conduction of training courses	Trainings not been improved with proper plans for the main objective of cooperative promotion, low level progress of training programs , Trainings not being promoted using modern techniques