

1.1 Qualified Opinion

The audit of the financial statements of the National Institute of Cooperative Development for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in net assets 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 and the Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for 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 National Institute of Cooperative Development as at 31 December 2018, and of 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 based 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 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 Institute'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 Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Institute 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 Institute.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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.
- Obtain an understanding of internal control relevant to the audit 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.
- 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 Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's 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 auditor's report. However, future events or conditions may cause the Institute 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 Institute, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation	Comments of the Management	Recommendation
(a) Since the useful life of the motor vehicles belonging to the Institute had not been reviewed annually in terms of Sri Lanka Public Sector Accounting Standard 07 , assets costing Rs.10,447,500 were further in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in estimation in accordance with the Sri Lanka Public Sector Accounting Standard 03.	Observation is correct. It was noted down to revalue those vehicles in the year 2019 and depreciate them after assessing the useful life in accordance with Sri Lanka Public Sector Accounting Standard 07.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standard 07.
(b) The loan balance of Rs.24,000,000 payable to the Cooperative Fund had not been separately recognized and presented as non-current and current liabilities in accordance with Sri Lanka Public Sector Accounting Standard 01.	Action will be taken to include the estimated payable amount in the year 2020 under the current liabilities and to present the balance under the non-current liabilities.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standard 01.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) In the revaluation of buildings, the accumulated depreciation value of the buildings had been overstated by Rs.1,151,977 in the account. As such, the revaluation reserve had been overstated by that amount.	Observation is correct. Action will be taken to make corrections in the year 2019.	It is recommended to take steps to keep correct accounts.
(b) Although the provisions of Rs.30,530,000 had been received from the Treasury for the recurrent expenditure during the year under review, since a sum of Rs.543,744 saved from the Treasury Grants received in the preceding year and Rs.31,134,685 adjusted as the income of the year had been stated in the Performance Statement, the Treasury Grants of the year under review had been overstated by Rs.604,685.	Observation is accepted.	It is recommended to keep take steps to correct accounts.
(c) Depreciation value of the buildings for the year under review had been overstated by Rs.1,269,014 in the account.	Observation is accepted.	It is recommended to take steps to keep correct accounts.

1.5.3 Lack of Documentary Evidence for Audit

Since the evidence indicated against the following items of accounts had not been made available, transactions totalling Rs.148,899,224 could not be satisfactorily verified in audit.

Item	Amount	Evidence not Furnished	Comments of the Management	Recommendation
(i) Machinery and Equipment	103,064,255	Schedules	Action will be taken to submit schedules relating to machinery, equipment and furniture.	Recommendations are made to enter the assets in the documents.
Furniture	45,834,969			
	148,899,224			

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Observation	Comments of the Management	Recommendation
(i) The value of 07 accounts balances receivable as at 31 December of the year under review totaled Rs.5,939,694 and it included the balances totaled Rs.1,730,268 continued to exist over a period from 01 year to 5 years and balances of Rs.879,859 remained receivable for more than a period of 05 years.	It was noted down to make every possible effort to recover the funds receivable and take future steps accordingly.	Action should be taken to settle the funds receivable.

(ii)	The balance of Value Added Tax of Rs.33,933,319 receivable from the Inland Revenue Department and continuously brought forward from the year 2005 had not been settled.	This matter was discussed with the Inland Revenue Department and verbal instructions were received with regard to the future steps to be taken to recover the outstanding. Future steps will be taken accordingly.	Action should be taken to settle the balances.
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1.6.1 Accounts Payable

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
The value of 05 accounts balances payable as at 31 December of the year under review totaled Rs.98,001,141 and it included the unsettled balances totaled Rs.62,480,490 continued over a period from 01 year to 5 years and the balances totalling Rs.34,365,853 that remained unsettled for more than a period of 05 years.	A balance of Rs.15,106,285 older than 05 years is the retention money pertaining to the construction of building. A Cabinet Paper has been referred to the Ministry in this regard and it was noted down to take future steps according to the approval received to the said Cabinet Paper.	Action should be taken to settle the balance payable.

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

----- Reference to Laws, Rules and Regulations -----	Non-compliance -----	Comments of the Management -----	Recommendation -----
(a)	Section 47 of the Employees Provident Fund Act, No.15 of 1958.	In the computation of contribution to the Provident Fund, only the basic salary had been taken into consideration from the year 2006	At the Board of Employees Management held on 31 May 2019, a decision had been taken contribution should be recovered in terms Employees Provident

to 2015 without being taken into account the Cost of Living Allowance and having computed the arrears for the year 2018, the contributions of the employees amounting to Rs.1,673,929 had been paid from the Academic and Training Account of the Institute during the year under review.

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| (b) Financial Regulation 104 (4) | A motor vehicle of the Institute which had met with accident on 01 June 2014 remained idle in the Institute premises whilst exposing to the elements without being used over a period of 4 years. A full report thereon had not been submitted. | At the Board of Management held on 31.05.2019, a decision had been taken to appoint a Committee and to take future steps on the accident by obtaining recommendations of that Committee. | Action should be taken in accordance with Financial Regulations. |
| (c) Section 8.2.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003 | Without being obtained approval of the Minister of Finance and the Minister in charge of the subject, a sum of Rs.5 million and Rs.10 million had been invested in the fixed deposits in the years 2013 and 2014, and the year under review respectively. | With the objective of earning an interest income for the balances existed in the current account, those were invested in the fixed deposits, whereas approval of the Ministry of Finance could not be obtained for that purpose. | Action should be taken in accordance with Circulars. |

2. Financial Review

2.1 Financial Results

The operations of the Institute for the year under review had resulted in a surplus of Rs.2,914,386 as compared with the corresponding surplus of Rs.2,509,280 for the preceding year, thus observing an improvement of the financial results by Rs.405,106. This improvement was mainly attributed to the increase in the income.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) The auditorium consisting of two lobbies and facilities for 1127 spectators constructed in the year 2014 at a cost of Rs.257 million with the objective of earning income by renting out to external parties had been used only 29 instances during the year 2018. The two conference halls situated in this auditorium with 160 imported seating capacity and capable of holding conferences at international level had remained idle from the year 2014.	Necessary steps are being taken to increase utilization and action will be taken to obtain recommendations of a committee appointed so as to include the officers of the Nelumpokuna Theatre and the Bandaranaike Memorial International Conference Hall regarding the increase in the utilization of two main lobbies, cafeteria, and conference halls and to take future steps accordingly.	Steps should be taken to increase income.

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| (b) | The Cope-city model shop containing 2979 square feet maintained in the ground floor of the multipurpose building of the Institute had been returned to the Institute on 25 August 2017. Since that premises had not been used for effective purpose, an income of Rs.720,000 had been deprived only in the year under review according to the assessment. | The Cope-city model shop maintained in the ground floor of the multipurpose building of the Institute was dislocated from that place on their requirements and at present this premises is used for the teaching activities of the vocational courses of the Institute and examination activities, when required. | Action should be taken to utilize building and thereby, earn income. |
| (c) | As a result of not conducting 04 courses targeted in the Training Guidelines during the current year, an income of Rs.927,500 had been deprived. | Due to lack of sufficient number of students, these courses had not been conducted. | Action should be taken to conduct targeted courses indicated in the Training Guidelines |

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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The Circuit bungalow of the Institute renovated at luxuries level at a cost of Rs.16,000,000 in the year 2014 had been used only in 29 instances during the year under review.	It was noted down to take steps to increase the reservations by way of wide promotional activities and revision of charges.	Action should be taken to increase utilization.

3.3 Underutilization of Funds

Audit Observation	Comments of the Management	Recommendation
A sum of Rs.2,623,316 out of Rs.6,000,000 received from the Department of National Budget in the year 2014 in respect of Standard Development Project of the training courses of the Institute, a sum of Rs.29,755,000 that remained unspent from the sum of Rs.68,445,000 received in the years 2014 and 2015 for the construction of the auditorium and a sum of Rs.17,773,317 out of the amount received for the capital expenditure during the year under review and the preceding year had been retained in the current account.	It is scheduled to use the balance of Rs.2.6 million of the Standard Development Project of the training courses to purchase computers in the year 2019 and take steps on Rs.27.55 million for the payments of the auditorium subsequent to the receipt of Cabinet approval. The sum of Rs.17.77 million has been utilized for the payment of advances and bills relating to the renovation of Government quarters.	Funds should be effectively utilized.

3.4 Idled or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
The old office building of the Institute situated in a block of land of commercial value belonging to the Institute had remained idle and attention of the Management had not been drawn on renovating the above building or used the land by carrying out a new construction. Further, a building of the Institute known as Mahaweli Building Premises had remained idle without being used for any purpose.	When the staff vacancies are filled this premises will have to be used.	Assets belonging to the Institute should be utilized.

3.5 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
(a) Although expenditure of Rs.454,589 had been incurred to publish advertisements on 9 newspapers in 3 instances to make recruitments for 06 posts, any recruitment had not been made.	Only one newspaper advertisement has been published during the year under review regarding the recruitments. A sum of Rs.192,220 has been incurred in the relevant advertisement and according to the said advertisement, vacancies of the posts of Director General and Director (Education and Development) have been filled.	Action should be taken according to plans and thereby, minimize the fruitless expenditure.
(b) According to the Board of Management decision, although the total number of lecture hours required to be conducted by 04 lecturers during the year 2018 was 2880 at minimum of 60 hours per lecturer for a month, the total number of lecture hours conducted during the year was 1904. Accordingly, 976 lecture hours had not been conducted during the year.	Lecturers have been informed and instructed to cover the 60 lecture hours per month.	Action should be taken in accordance with the decisions of the Board of Management.

4. Accountability and Good Governance

4.1 Sustainable Development Goals.

Audit Observation	Comments of the Management	Recommendation
In terms of Agenda 2030 of the Sustainable Development Goals adopted by the United Nations, the Institute had not recognized sustainable development goals and the indicators to reach such targets and evaluate its progress.	Even though the Institute was unaware of the matter in the year 2018, in the preparation of Action Plan of the year 2019, action has been taken to prepare the Plan so as to depicting the goals which are covered out of 17 sustainable development goals, by the activities included therein .	Action should be taken to identify the sustainable development goals and the required indicators.