

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the National Institute of Co-operative Development for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 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 effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards.

**1.2 Basis for Qualified Opinion**

My opinion is qualified 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 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 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 Audit Scope (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 Audit Observations on Preparation of Financial Statements

### 1.5.1 Accounting deficiencies

Audit Observation	Management Comment	Recommendation
Although the building depreciation had been shown as Rs.20,342,437 in the financial statement of the year under review, since the depreciation on the basis of useful life time was Rs.20,234,046, the building depreciation had been over accounted by Rs.108,791.	That the action will be taken to rectify in the preparation of the final accounts in 2023.	Depreciation should be accurately accounted.

### 1.5.2 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements Rs.	Value as per Corresponding Records Rs.	Difference Rs.	Management Comment	Recommendation
(i) Cars	10,200,838	10,196,250	4,588	That the action will be taken to rectify in preparing the final accounts in 2023.	Discrepancies should be identified and balances of accounts should be corrected.
(ii) Buildings	618,017,936	618,330,331	312,395		
(iii) Library books	3,120,441	3,143,884	23,443		
(iv) Accumulated depreciation of Library books	2,536,946	2,554,766	17,820		
(v) Accumulated depreciation of Cars	3,640,952	3,951,365	310,413		
	637,517,113	638,176,596	668,659		

### 1.5.3 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
VAT balance	33,026,774	Balance confirmations	That the VAT audit has been done up to the year 2015 and the report in that regard will be received and submitted.	Information should be submitted to verify balances.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
Total of 06 receivable balances as on 31 December of the year under review was Rs.2,405,728. Out of that, Rs.256,258 relating to the period between 01 and 05 years and Rs.796,962 for more than 05 years had not been collected.	That the amount to be further recovered will be collected.	Receivable should be recovered.

#### 1.6.2 Payables

Audit Observation	Management Comment	Recommendation
Total of 09 balances of creditor of Rs.11,468,279 had not been settled as on the last date of the year under review.	That the provision should be arranged for the payment to the construction of the auditorium and action will be taken to settled other balances.	Payables should be settled.

### 1.7 Non-compliance with laws, rules, regulations and management decisions etc

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 04 of the National Institute of Co-operative Development (Incorporation) Act, No. 01 of 2001	The objectives of the institute to promote and coordinate activities related to cooperative development, provide training through modern technical methods, promote research on	That the main objectives have been achieved and since the establishment of model co-operative villages and trade centres is being	Action should be taken to achieve all the objectives of the organization.

cooperative development, problematical, that it manage cooperatives that has been proposed require skills, provide for removal as an professional advice and amendment to the establish model cooperative Act. villages and trade centres should be done.

- (b) Guideline 1.2.1 (c) 08 laptops worth Rs.1,618,400 That the invitation to Procurement of the Government had been procured without bid notice has been guidelines should Procurement competition by submitting mailed to 10 be followed and Guidelines specifications only to the suppliers including registered mail should be used. selected firm without giving 05 registered suppliers of the fair, equal and maximum suppliers of the opportunity to eligible institute. interested parties to participate in the procurement.

## 2. Financial review

### Financial results

The operating result for the year under review was a deficit of Rs. 5,547,435 and the corresponding previous year's deficit was Rs. 941,564. Accordingly, a decrease of Rs.4,605,871 was observed in the financial result. Although the revenues for the year had increased by 22 per cent, this increase was mainly due to the fact that the recurring expenses had increased by 26 per cent.

## 3. Operational review

### 3.1 Management Inefficiencies

#### Audit Observation

2 cars provided by the Ministry of Internal Trade and Food Security in the years 2015 and 2020 had not been taken over by the end of the year under review.

#### Management Comment

Necessary steps have been taken to take over the 2 cars and it will be taken over immediately.

#### Recommendation

Ownership of the vehicle should be taken over.

### 3.2 Operational inefficiencies

#### Audit Observation

According to the management board decision dated 31 July 2020, even though an internal lecturer should work for a minimum of 60 hours per month, 10 lecturers had lectured for less than 60 hours per month during the period from January to August of the year under review and not even one lecture was delivered by 03 lecturers in 02 months and one lecturer in one month.

#### Management Comment

It is not possible to complete the minimum number of lecture hours because new lecturers have been given the opportunity to be used for the replacement service and currently, time sheets are being prepared to cover the minimum number of lecture hours for all lecturers and work is being done to employ them in lectures.

#### Recommendation

Management Board decisions should be followed.