

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 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance for the year then ended, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 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 2024, and of its financial performance and its 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 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 this 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 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) During the comparison of the values of machinery and equipment stated in the financial statements for the year under review with the schedules furnished for audit, discrepancies were observed amounting to Rs. 25,013,510 in the cost or revalued amount of assets, Rs. 41,617,125 in accumulated depreciation, and Rs. 15,174,310 in net value. In addition, a discrepancy of Rs. 324,187 was observed in the accumulated depreciation account of forks and other equipment as per the financial statements and schedules.	The accounts have been correctly stated and action will be taken to rectify the schedules.	Necessary steps should be taken to correct either the account balances or the schedules by identifying discrepancies.

(b) Lack of Documentary Evidence for Audit

	Subject	Amount (Rs.)	Audit Evidence Not Furnished	Comment of the Management	Recommendation
(i)	Non-current assets and receivable balances	17,193,681	Fixed asset register, balance confirmation letters, files, and other records	It has been informed that a fixed asset register is not maintained, but subsidiary records are maintained for those assets. It has also been stated that some	A fixed asset register should be prepared in the prescribed format, and the balance confirmation letters and other information

				parties have informed their inability to settle certain balances, while legal action has been initiated to recover some other balances.	requested by the audit for balance verification should be provided.
(ii)	Liabilities and Capital Grants	28,586,540	Fixed asset register, balance confirmation letters, files, and other records	Certain balances will be offset against course fees from students participating in the 2025 course, and balance confirmations and schedules will be submitted.	Action should be taken to provide the schedules, balance confirmations and information requested by the audit.

1.6 Accounts Receivables and Payables

1.6.1 Receivables

	Audit Observation	Comment of the Management	Recommendation
(a)	As at 31 December of the year under review, out of the total receivable balance of Rs. 922,726, a sum of Rs. 11,424 related to periods between 01 and 05 years, and a sum of Rs. 790,462 related to periods exceeding 05 years, had not been recovered by the end of the year under review.	<p>It has been informed that action is being taken to recover the amounts receivable from external training courses during the year.</p> <p>It has also been stated that necessary steps are being taken to recover Rs. 145,340 outstanding for more than five years.</p> <p>In respect of rent receivable, legal action has been filed under case No. DMR/8082/2012, and it has been informed that further action will be taken after obtaining the Attorney General's advice.</p>	Formal action should be taken against the officers responsible for the failure to recover the receivable balances in a timely manner.

1.6.2 Payables

Audit Observation	Comment of the Management	Recommendation
(a) Out of the total payable balance of Rs. 15,314,815 as at 31 December of the year under review, a sum of Rs. 364,895 related to periods between 01 and 05 years, and a sum of Rs. 14,949,920 related to periods exceeding 05 years, had not been settled.	It has been informed that the payment of Rs. 7,098,096 due to the C.E.C.B. institution will be made based on the instructions given by the Board of Management. It has also been stated that the course fee of Rs. 23,000 and the hostel fee of Rs. 306,743, which are refundable, have been decided to be retained to be set off against future courses without being refunded.	Steps should be taken to properly check and settle the balances due or to credit them into income.

1.6.3 Non-compliance with laws, rules and regulations

Reference to Laws, Rules, and Regulations	Value (Rs.)	Description	Comment of the Management	Recommendation
(a) Asset Management Circular No. 04/2018 dated 31 December 2018 and the Guidelines for the Valuation of Non-Financial Assets issued by the Ministry of Finance and Mass Media	822,298,888	Although land and buildings should be revalued once every 05 years, the institution had last revalued them on 01 August 2018. Despite more than six years having passed, no revaluation had been carried out during the year under review.	It has been informed that a request has been made to the Provincial Department of Revenue to obtain the necessary assistance for the revaluation of land and buildings.	Assets should be revalued in accordance with the circular, and the updated values should be reported to the Comptroller General.
(b) Section 3.1 of Circular No. 2004/කුස/1 (2016 – Amended) dated 22 December 2016 issued by the Director General of the Library and Documentation Services Board		In accordance with the provisions of the circular, the physical verification of the library stock had not been carried out during the year under review and the two preceding years.	It has been informed that the observation is agreed upon and that preliminary steps have been taken to commence the verification of the	Formal action should be taken against the officers who failed to conduct the verification, and steps should be taken to carry out the stock

library stock for verification within the year 2024. the prescribed timeline.

2. Financial Review

Financial Results

The operational result for the year under review was a deficit of Rs. 35,222,227, as against the surplus of Rs. 3,003,434 in the previous year. Accordingly, a deterioration of Rs. 38,225,661 in the financial result was observed. This deterioration was mainly due to the adjustments made in the accounts following the notification received from the Department of Inland Revenue that the balance of Rs. 33,026,774 relating to Value Added Tax in respect of previous years would not be refunded.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	In the examination of the 2024 Action Plan prepared to carry out the functions specified in Section 04 of the National Institute of Co-operative Development (Incorporation) Act No. 01 of 2001 and the progress thereof by the end of the year, it was observed that out of the 46 training courses/sessions and 8 activities planned to achieve the 10 objectives of establishing the Institute, 18 courses/sessions and 6 activities had not been fully implemented.	It has been informed that the activities could not be completed due to the non-receipt of expected provisions.	A formal investigation should be conducted on the failure to achieve the targeted objectives, and a proper program should be implemented to avoid such situations in the future.
(b)	During the year under review, the Institute had not paid attention to achieving the objectives of undertaking and managing co-operative enterprises that require managerial expertise and establishing model co-operative villages, model co-operative business centers, and regional centers.	It has been informed that attention was not focused on these objectives due to the restructuring proposal of the Institute, and that necessary steps will be taken in the future giving priority to these matters.	Action should be taken to plan activities in future to cover all the objectives specified in the Act.
(c)	Although maintaining membership in the "International Co-operative Alliance" in order to collaborate with local or international organizations performing similar functions is stated as one of the objectives of the Institute under its Establishment Act, the Institute had not	It has been informed that the membership fee was not paid as the Ministry did not recommend the request made by letter No. NICD/AD/34/Membershi	A strategic plan should be prepared and implemented to fulfill the objectives of the Act by obtaining the support of relevant institutions to enhance the

	renewed its membership in the International Co-operative Alliance since 2021.	p dated 21 January 2023 to settle the membership fee, and that action will be taken in this regard based on a decision of the Board of Management.	effectiveness of the Institute and to deliver a quality service.
(d)	A total sum of Rs. 1,669,865, consisting of Rs. 305,589 received in 2009 for the construction of a multipurpose building, Rs. 744,921 remaining from the amount received from the National Budget Department in 2014 for the project on standard development of training programs, and Rs. 619,355 remaining from the funds received in 2014 and 2015 for the construction of an auditorium, had remained idle in a current bank account without being effectively utilized even by the end of the year under review.	It has been informed that the balance of Rs. 744,921 remaining from the Rs. 6,000,000 granted by the National Budget Department for the standard development of training programs will be utilized during this year for that purpose. It has also been stated that the balance of Rs. 305,589 remaining from the provisions allocated for the construction of the multipurpose building will be used for the necessary improvements to the same building.	A proper plan should be prepared and promptly implemented to utilize the remaining funds effectively without retaining them idle.
(e)	Estimated expenses had not been included for 98 activities in the Action Plan of the institution for the year 2024.	It has been informed that the observation is agreed upon and that necessary arrangements will be made to include estimated expenses for all activities when preparing the Action Plan for the year 2025.	Action should be taken both to take formal measures against the officers who failed to prepare the plans properly and to ensure that estimated expenses are included when preparing the Action Plan in the future.
(f)	Although the Action Plan for the year 2024 should have been revised within a reasonable time frame, the revised Action Plan had been prepared on 30 December 2024, including only the activities that had already been implemented.	It has been informed that the observation is agreed upon and that, in the event of any deviation in the Action Plan, necessary steps will be taken to revise it within a reasonable time frame.	Action should be taken to stop such irregular practices and to revise the Action Plan within a reasonable time frame in the future.

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| <p>(g) According to Section (3) 3.1 of the Examination Procedure approved by the Board of Management for 2022, which was adopted for the internal and external course examination, answer scripts should be first assessed within 4 weeks of the examination. However, for 16 courses covering approximately 70 subjects, there was a delay in submitting the answer scripts from the Examination Division to the examiner between 01 to 05 months.</p> | <p>It has been informed that the observation is accepted and that the delay issue has now been resolved. Answer scripts are being handed over to the examiner for assessment without further delay, in accordance with Section 3.1 of the approved Examination Procedure.</p> | <p>Action should be taken against officers who failed to follow proper procedures, and an internal arrangement should be established to ensure prompt assessment of answer scripts to prevent future delays.</p> |
| <p>(h) Although answer scripts for examinations conducted for courses in 2023/2024 should have been assessed by lecturers in a timely manner in accordance with the Examination Procedure, it was observed that the assessment of answer scripts for 19 examinations took a period ranging from 6 months up to 01 year to complete.</p> | <p>The observation is accepted, and reminder letters have been sent to the examiners. At present, the assessment marks for the 2023 examinations have been submitted to the Examination Division. It has also been informed that marks for the assessment of answer scripts for several subjects of 2024 are expected to be received shortly</p> | <p>Appropriate action should be taken regarding non-compliance with the Examination Procedure, and a prompt internal arrangement should be established to ensure that the assessment of answer scripts is carried out without further delay.</p> |
| <p>(i) In two instances during the year under review, two officers who did not possess the required academic qualifications and had not completed the necessary service experience had been appointed to act in the post of Director General by the Secretary of the Ministry, without paying attention to Section 13.1.2 and Section 13.4 of Chapter II of the Establishments Code and the provisions of Section 5.1.1 of the Recruitment Procedure for the post of Director General of the Senior Management Service Grade of the National Cooperative Development Institute.</p> | <p>It has been informed that the observation is agreed upon and that, based on the requirement for the post of Director General and Chief Executive Officer in this Institute, these two officers were appointed on an acting basis by the Secretary of the Ministry, as approved at the 163rd Board of Management meeting held on 22 February 2024.</p> | <p>Action should be taken to appoint officers who meet the qualifications specified for the post in accordance with the relevant recruitment conditions.</p> |

3.2 Operational Inefficiencies

Audit Observation	Comment of the Management	Recommendation
It was observed that out of 115 rooms in 09 hostels and a holiday resort of the Institution, a minimum of 34 per cent and 12 percent, were utilized in the year 2024.	It was stated that the decrease in room usage was due to the diploma courses conducted by the institution being held online in 2024. However, steps had been taken to allow the use of those vacant rooms for programs conducted within the institution upon external requests, in order to prevent their underutilization.	A program should be promptly formulated to utilize underutilized assets and thereby generate income.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Management	Recommendation
(a) It was observed that the Mahaweli building premises, consisting of two floors and a guard room, constructed by the institution in 1999 at a cost of Rs. 2,368,359, has remained idle for over 20 years since 2002.	It has been informed that it has been decided to call for expressions of interest to implement a suitable project that will utilize the Mahaweli Building premises for productive purposes, and accordingly, this premises will be used for a suitable project.	Idle or underutilized assets should be either employed to generate income or formally transferred to an institution where there is a need.
(b) Within the institution's 2,025 sq. ft. premises, three computer laboratories consisting of 40 computers have remained idle and underutilized since the end of 2023, and some of the installed computers were found to be non-functional.	Since the Cabinet had taken a decision to restructure this institution, it was decided not to lease this building and it was decided to call for expressions of interest to implement a suitable project to enable it to be reused.	A prompt arrangement should be established to make productive use of underutilized assets.
(c) Of the 5-storey multi-purpose building consisting of 14,403 square feet that was completed and taken over by the institution in 2010, 4 floors, each measuring 10,839 square feet, had remained unused for between 02 and 04 years as of April 3, 2025.	Since the Cabinet had taken a decision to restructure this institution, it was decided not to lease this building. It has also been announced that decision has been reached to invite expressions of interest to implement a suitable project to utilize the remaining premises of the multi-purpose building.	An expeditious arrangement should be made to utilize underutilized assets and generate revenue.

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| (d) | According to the institution's 2024 action plan, a one-year diploma course designed for non-technical management assistant staff was not conducted due to the absence of eligible applicants. As the diploma courses were included in the action plan without prior assessment, 720 hours of lecturers' teaching time remained idle due to this unimplemented course. | The observation is acknowledged. It has been reported that the diploma course, which was not conducted in 2024, commenced in May 2025. | When planning activities in the action plan, relevant activities should be included only after proper study, and steps should be taken to introduce courses that meet external demand. |
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