

National Institute of Co-operative Development-2012

1. Financial Statements

1.1 Qualified Opinion

I am of the opinion that, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the National Institute of Co-operative Development as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

Action had not been taken to eliminate from the accounts the fixed assets such as computers, furniture, office equipment, machinery and equipment, library books valued at Rs. 37,679,234 discarded from use or for disclosing those in the financial statements.

1.2.2 Accounts Receivable and Payable

The following observations are made.

- (a) Course fees and external services fees, totaling Rs. 1,153,412 remaining outstanding for periods ranging from 01 year to 05 years had not been recovered even by 30 August 2013.
- (b) Even though the Value Added Tax receivable amounting to Rs. 14,999,156 had been accumulated over a period exceeding 05 years as at 31 December 2012, those balances had not been recovered.

1.2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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<u>Establishments Code of the Democratic Socialist Republic of Sri Lanka</u>	
(a) Chapter XIX Section 5.3	Instead of recovering 10 per cent of the salary or an economic rent from the employees occupying scheduled Government Quarters, nominal rent ranging from Rs.750 to Rs.2,000 had been recovered from 09 employees occupying scheduled Government Quarters.
(b) Chapter VII Section 12 of the Public Administration Circular No.06/97 of 03 February 1997.	Contrary to the Circular, a Lecturer who had been acting in the Post of Director (Education and Development) for more than 03 years as at 31 December 2012 had been paid acting allowance totalling Rs.366,013.

1.2.4 Transactions without Formal Authority

Timetables for 4,320 lecture hours per year for the 06 Lecturers in the service of the Institute should have been prepared to cover 720 lecture hours per year per lecturer at least at the rate of 60 lecture hours per month with the objective of obtaining an adequate and efficient service from the Lecturers of the Institute. Even though the Board of Management of the Institute had decided at the fifty ninth meeting of the Board of Management held on 19 June 2009 that lecture fees should not be paid for the lectures delivered during week days for the courses organised by the Institute and the Lecturers who do not cover the minimum number of lecture hours, should not be paid lecture fees for the delivery of lectures for the courses conducted at the request of external institutions. The following observations are made on the action taken by the Institute contrary to that decision.

- (a) The time tables of the courses had not been prepared so as to cover the minimum lecture hours of the Lecturers and the actual lecture hours of the Lecturers during the year 2012 had been 2,274. That represented 53 per cent of the number of minimum lecture hours.

Surplus before adjustment of Depreciation	3.94	11.00	3.00	3.19	4.49	25.62
<u>Less</u>						
Set off of Recurrent Grants and Capital Grants and Revaluation Profit	44.73	32.47	22.39	21.47	19.68	140.74
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Deficit	(40.79)	(21.47)	(19.39)	(18.28)	(15.19)	(115.12)
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The following observations are made in this connection.

- (a) The expenditure of the Institute during the five years from the years 2008 to 2012 totalled Rs.253.82 million and the other income totalled Rs.138.70 million. As such the expenditure had exceeded the income by a sum of Rs. 115.12 million. Therefore the income of the Institute had not increased as compared with the expenditure.

3. Operating Review

3.1 Performance

The following observations are made.

- (a) The following main objectives expected to be achieved by the incorporation of the Institute in terms of Section 4 of the National Institute of Co-operative Development (Incorporation) Act, No.1 of 2001 had not been fulfilled.
- (i) Promotion of research in Co-operative development.
 - (ii) Acting as a resource centre for collection of data relating to Co-operative development and to collate and disseminate such data by way of publication.
 - (iii) Undertake and manage co-operative enterprises which require managerial skills.
 - (iv) Providing professional advice to co-operative enterprises.

- (b) The progress of the courses conducted by the Institute as compared with the preceding year is given below.

Course	2012				2011	
	Targeted		Actual		Actual	
	Number of Courses/ Programmes	Number of Participants	Number of Courses/ Programems	Number of Participant Trainers	Number of Courses/ Programmes	Number of Participant Trainers
Permanent Co-operative Training Courses	02	72	02	92	03	110
Higher Diploma Courses	15	309	14	279	16	297
Certificate Courses	07	155	06	173	05	81
Short Term Management Development Training Programmes	24	600	18	491	12	351
Training Programmes conducted at the request of External Institutions	-	-	19	850	16	682
Training Programmes conducted free of charge for the Advancement of the Co-operative Sector	-	-	23	764	08	380
Assisting Programmes for External Degrees and Professional Accountancy Examinations	-	-	10	213	04	57
Total	48	1,136	92	2,862	64	1,958

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The following observations are made in this connection.

- (i) Even though the conduct of 24 Short Term Management Development Training Programmes had been targeted for the year under review, 18 programmes only had been conducted. As such the performance had been 75 per cent.
- (ii) Even though courses had been conducted in the year under review at the request of external institutions, free of charge programmes for the Advancement of the Co-operative Sector and the assisting programmes for External Degrees and Professional Accounting Examinations, their targets had not been determined.

3.2 Underutilization of Funds

The following observations are made.

- (a) The Capital provision of Rs. 20,056,450 received from the Treasury in the year 2010 had been idling in the Bank Current Account for about 02 years due to the delay of 04 years in the construction of the auditorium.
- (b) Out of a grant of Rs.2,932,250 received on 31 May 2011 from a State Bank for the National Productivity Performance Competition Programme of the Co-operative Sector for the year 2010, an unutilized sum of Rs.1,342,856 had been retained in the Bank Current Account even up to 31 December 2012.
- (c) A sum of Rs.893,843 accumulated in Bank Current Accounts over a period of 05 years had not been effectively utilized.

3.3 Transactions of Contentious Nature

The following observations are made.

- (a) According to the Chief Valuer, the annual assessed rent of the ground floor of Multipurpose Building, amounted to Rs. 390,000. Disregarding the assessed amount, that floor had been irregularly rented out to an Association of Co-operative Societies for a period of 05 years from 01 April 2010 to 31 March 2015 for an annual rent of Rs. 195,000. As such the Institute had been deprived of a rental income of Rs. 536,250 up to 31 December 2012.
- (b) The bus belonging to Institute had been hired out to the external parties as well and in that connection an initial charge of Rs. 8,000 per the first 100 kilometers and at Rs.65 per each additional kilometer should have been recovered. Nevertheless the bus had been run free of charge for 12,505 kilometers relating to the private trips of the officers of the line Ministry, and a sum of Rs. 277,626 had been spent on fuel for that purpose. The Institute had been deprived of a sum of Rs. 841,780 receivable in that connection.

3.4 Uneconomic Transactions

A Consultant had been recruited on contract basis outside the approved cadre of the Institute for the promotion of the courses on the subject of Information Technology and a sum of Rs. 360,000 had been paid as consultancy allowance in the year 2012. Nevertheless, his consultancy services had not resulted in the introduction of new courses or improvement of the participant trainees in the courses or improvement of the Status of the courses or improvement of the income. The consultancy service procured had not resulted in the achievement of the expected promotion of the courses.

3.5 Idle and Underutilized Assets

Three printing machines of the Printing Division had been idling over a period exceeding 10 years.

3.6 Deficiencies in Contract Administration

The following observations are made.

- (a) Construction of the Auditorium

The construction of the Auditorium at a cost estimate of Rs. 44.5 million had been awarded to a private construction company in August 2001. Even though the construction works should have been completed by April 2003, the work had been stopped halfway due to the collapse of the roof during construction on 14 February 2005. Even though, the construction of the balance work including the roof had been awarded on a new cost estimate of Rs. 113 million to the Central Engineering Consultancy Bureau in the year 2009 for completion by 31 December 2010, the work had not been completed even by 30 July 2013.

The following observations are made in this connection.

- (i) According to the Arbitration Award made by the Institute of Construction Training and Development and the letter No.CIT/4/4/8/2 dated 31 May 2012 of the Secretary to the Line Ministry, directions had been given to take legal action for the recovery of the loss of Rs. 3,907,904 caused to the Institute due to the collapse of the roof at the rate of 50 per cent each from the consultant who provided Consultancy Services for construction and the Construction Company. The loss had not been recovered up to 30 June 2013.
- (ii) No disciplinary action had been taken against the consultant who had provided private Consultancy Services while being in public service and obtained consultancy fees amounting to Rs. 2.15 million.
- (iii) The work that could have been completed at a cost of Rs. 44.5 million had escalated by Rs. 210.5 million to Rs. 255 million due to the long delay of 11 years from the commencement in the year 2001 up to 31 December 2012 due to the revision of the designs from time to time.

(b) Procurement of Service Facilities

The following observations are made in connection with the procurement of security, janitorial and Canteen facilities.

- (i) The contract for the supply of Security, Janitorial and Canteen Services for the year 2012 had been awarded to the Contractor who had been irregularly selected for the supply of the above services for the year 2011 without inviting quotations and on irregularly obtained quotations by extending the periods of the contracts for the year 2012.

- (ii) The monthly fee of janitorial services amounting to Rs. 224,930 according to the contract agreement had been irregularly increased by Rs. 59,282 to Rs. 284,212 in April 2012, thus resulting in a loss of Rs. 533,538 to the Institute.

3.7 Staff Administration

The approved cadre of the Institute had been 71 and the actual cadre had been 22. As such there were 49 vacancies. Even though the approval in terms of Financial Regulation 71 had been granted for filling the vacancies, action had not been taken up to 31 December 2012 to fill the vacancies.

4. Accountability and Good Governance

4.1 Corporate Plan

A Corporate Plan for the years 2012 - 2016 had not been prepared in accordance with the instructions in the Public Enterprises Circular No.PED/12 of 02 June 2003.

4.2 Internal Audit

An Internal Audit Unit had not been established in terms of Financial Regulation 133.

4.3 Procurement Plan

A Procurement Plan for the year under review had not been prepared in terms of Guideline 4.2 of the Government Procurement Guidelines.

5. 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.

- (a) Fixed Assets
- (b) Outstanding Income
- (c) Contract Administration
- (d) Human Resources Management.