

**1.1 Qualified Opinion**  
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The audit of the financial statements of the National Institute of Cooperative Development for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 2019, 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**  
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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**  
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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)**

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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 Accounting Deficiencies**

Audit Observation	Comments of the Management	Recommendation
(a) Even though the motor vehicle given to the Institute had been assessed at Rs.2,000,000, action had not been taken to acquire and account for the above vehicle and include in the financial statements.	The motor car bearing No. WP-KS-2087 has been given to this Institute on temporary basis and request has been made for the transfer of the vehicle.	Action should be taken to account for accurately.
(b) Although the employees' contribution recoverable to the Public Service Provident Fund from the year 2006 to 2015 amounted to Rs.1,501,070, it had been stated as Rs.1,316,338 in the financial statements, thus understating Rs.184,732.	In taking the management decision to recover the employees contribution from the employees, action has been taken to recover the due contribution from the employees who are presently engaged in the service.	Action should be taken to account for accurately.
(c) The value of Rs.1,120,020 spent during the year under review for the development of land belonging to the Institute had been brought to account under the buildings.	It was noted down to correct the error in the year 2020.	Action should be taken to account for accurately.

- (d) The value of direct remittance of Rs.471,014 received by the bank as at 31 December of the year under review had not been identified and adjusted in the accounts. Observations are correct. Out of the unidentified direct remittances, a sum of Rs.191,500 has been recognized and the other remittances are being identified. Action should be taken to account for accurately.

### 1.5.2 Non-reconciled Control Accounts or Reports

Item	Value as per the financial statements	Value as per the corresponding reports	Difference	Comments of the Management	Recommendation
Short term course on Information Technology.	Rs. 770,005	Rs. 896,005	Rs. 126,000	Observations are correct. Entries have been accurately made in the financial statements and the entries have not been correctly made in the schedules due to a mistake.	Action should be taken to account for accurately.
Furniture	46,046,345	46,091,160	44,815		
	46,816,350	46,987,165	170,815		

### 1.6 Accounts Receivable

Audit Observation	Comments of the Management	Recommendation
(i) The value of 11 accounts balances receivable as at 31 December of the year under review totaled Rs.3,629,081 and it included the balances totaled Rs.229,531 continued to exist over a period from 01 year to 5 years and balances of Rs.1,934,049 remained unsettled 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.

## 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 15 (4) of the National Institute of Cooperative Development (Incorporation) Act, No.01 of 2001.	In paying remunerations to the Academic Board, an allowance at Rs.5,000 has been paid on the approval of the Board of Management meeting held on 18 December 2015, whereas action had not been taken to obtain approval of the respective Minister and the Minister of Finance for that purpose.	It was noted down to report the matter on the remunerations paid to the Academic Board meetings for the next Board of Management meeting, and to obtain a decision thereon.	Action should be taken in accordance with the laws and rules.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 104 and 105	Despite lapse of 1 year and 8 months from stealing the root of the Sandalwood assessed at Rs.37,552 existed in the Institute premises, action had not been taken to recover the loss by conducting an inquiry.	Action is due to be taken to conduct an inquiry and recover the loss relating to the stealing of root of the Sandalwood valued at Rs.37,552 existed in the Institute premises.	The loss should be recovered in terms of the Financial Regulations.
(c) Section 6:10 of Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Without being complied with the referred section, at the 128 <sup>th</sup> Management Committee Meeting held on 30th November 2019, it had been proposed to extend the period of the Government quarters No. 9 by one year to the wife of the deceased Assistant Registrar in accordance with Board Paper No. 2019/08/04, and to extend the period at her annual request.	The Board of Management has granted approval to reside in the official residence of the deceased officer for a period of one year. Likely, it is only a proposal to give them the official residence beyond a period of one year.	Action should be taken in accordance with the provisions of the Establishments Code.
(d) Circular No.DMS/1735 dated 05 March 2018 of the Director General of the Management Services.	(i) Without obtaining approval as per the circular referred, a sum of Rs.154,500 had been paid to 10 officers for editing question papers.	It was noted down to get approval from the Department of Management Services	Approval should be obtained and arrangements should be made to pay allowances.

- (ii) Without obtaining approval as per the circular referred, 08 officers had been paid Rs.381,562 as course coordination allowance. Requests have been made to the Department of Management Services seeking approval and action will be taken according to the decisions received. Approval should be obtained and arrangements should be made to pay allowances.
- (iii) Supervision allowance of Rs.96,750 had been paid as per the decision of the Board of Management in the year 2001 without obtaining the approval as per the referred circular. Requests have been made to the Department of Management Services seeking approval and action will be taken according to the decisions received. Approval should be obtained and arrangements should be made to pay allowances.

## 2. Financial Review

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### 2.1 Financial Results

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The operations of the Institute for the year under review had resulted in a deficit of Rs.6,193,164 as against the surplus of Rs. 2,914,386 for the preceding year, thus observing an deterioration of the financial results by Rs.9,107,550. This deterioration was mainly attributed to the increase in the expenditure.

## 3. Operating Review

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### 3.1 Management Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
(a) Although the estimated income of the theater owned by the Institute during the year under review was Rs. 6,804,000, the revenue received due to not taking action to increase the publicity of the theater was only Rs.3,105,207.	The reason attributed to the decline in revenue during the year under review was the failure of outside parties to hold programmes amidst the confinement of assembling due to the Easter Sunday attack on 21 April 2019.	Action should be taken to earn income by giving a wide publicity.

<p>(b) As the Institute had not taken action to survey the 26 acre land of the Institute and obtain a transfer license from the government for more than a period of 50 years, the illegal acquisition of the land had become a difficult task to control.</p>	<p>After forwarding the relevant request to the Pathadumbara Divisional Secretary to confirm the ownership of the land, the Divisional Secretary has forwarded it to the Land Commissioner General through the Central Provincial Land Commissioner.</p>	<p>Steps should be taken to confirm the ownership of the land.</p>
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### 3.2 Operating Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
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<p>The Institute had been deprived of an income of Rs.1,025,875 for not conducting the targeted E-Kids courses during the year under review and an income of Rs.800,250 due to not attending the expected number of trainees for the computer courses.</p>	<p>The courses could not be conducted due to not attending the expected number of children.</p>	<p>Action should be taken to achieve the targets.</p>

### 3.3 Underutilization of Funds

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Audit Observation	Comments of the Management	Recommendation
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<p>A sum of Rs.844,921 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.24,844,722 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 balance of Rs.305,589 out of the provisions received for multipurpose building in the year 2017 had been retained idle in the current account.</p>	<p>It is expected to spend Rs.1,000,000 out of the funds allocated for the Standard Development Project of the training courses to obtain NVQ-level 4 and NVQ level 5 for 10 Diploma courses, the final bill related to the construction of the auditorium has not yet been settled and the repairs to the multipurpose building are to be done out of Rs.305,589.</p>	<p>Funds should be effectively utilized.</p>

### 3.4 Human Resource Management

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) There were 11 vacancies in 06 top management posts of the Institute by 31 March 2020. Without being making permanent appointments to the posts of Director General and Director (Education and Development ) of the Institute from the year 2001, recruitments have been made to those posts on secondary basis and contract basis.	Maximum efforts have been made to fill all the vacancies including the top management posts.	Action should be taken to fill vacancies.
(b) According to the Board of Management decision taken on 19 June 2019, although the total number of lecture hours required to be conducted by 03 lecturers during the year 2019 was 2,040 at minimum of 60 hours per lecturer for a month, the total number of lecture hours conducted during the year was 1,370.25. Accordingly, 669.75 lecture hours had not been conducted during the year.	The number of lecture hours pointed out by the audit as 1,184.25 is incorrect. Accordingly, the number of lecture hours not covered out of the total number of lecture hours assigned to the three lecturers is 107.75, but not 975.25.	Action should be taken in accordance with the decisions of the Board of Management.

## 4. Accountability and Good Governance

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### 4.1 Presentation of Financial Statements

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Although financial statements for each year should be presented for audit within 60 days from the close of year, the financial statements for the year 2019 had been presented on 23 June 2020.	It was decided to present the financial statements to the Board of Management together with the recommendations of the Audit and Management Committee and these activities were delayed	Action should be taken in accordance with the circulars.



owing to the spread of Corona Virus after 10 of March.

**4.2 Sustainable Development Goals.**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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.	Action will be taken to identify the targets.	Action should be taken to identify the sustainable development goals and the indicators required to evaluate their progress.