

**1. Financial Statements**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the National Institute of Co-operative Development for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be presented in 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 National Institute of Co-operative Development as at 31 December 2021, 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**

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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 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 Corporation.

#### **1.4 Audit Scope ( Auditor's Responsibilities on 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 Corporation'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 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 it 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**

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### **1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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Although the interest income should be determined based on the income that the entity can obtain specifically and the effective interest rate, in terms of Sri Lanka Public Sector Accounting Standards 10, the difference in between the interest income charged on the distress loan given by the Institute to the employees and the interest income that could have been obtained if the amount given as a loan was deposited in a bank account as compared, an amount of Rs. 108,485 had been shown as an opportunity cost under income and expenditure in the statement of financial performance.	Accounts have been prepared in accordance with Sri Lanka Financial Reporting Standards No. 09 .	Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

## 1.5.2 Lack of Evidence for Audit

Item	Amount	Evidences not Available	Comments of the Management	Recommendation
	<b>Rs.</b>			
Balance of VAT	35,086,223	Balance Confirmation	It has been informed that it is not possible to submit the balance confirmations for that until the completion of the audit, because an audit is being conducted by the Inland Revenue Department regarding the balance of VAT	Information required to audit should be furnished.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
The total value of 22 accounts balances receivable as at 31 December of the year under review was Rs.5,016,888 and within that, there was a total of Rs. 70,241 during the period from 01 to 05 year and the value of unrecoverable balances for more than 05 years was Rs. 1,209,780 .	It has been informed that the actions will be taken to recover relevant amount .	All the receivables should be recovered.

### 1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
The aggregate value of 45 outstanding deposit balances as at 31 December of the year under review was Rs. 17,303,469 and 18 balances which had remained from 02 to 05 years within that amount valued at Rs. 2,963,375 and there were 04 deposit balances for more than 05 years amounting Rs.13,145,565 and	It has been informed that the actions will be taken in future to obtain and release of the necessary funds for the retention amount of Rs.13,115,815 payable to CECB in deposits that have exceeded 05 years and with regard to the	Actions should be taken in terms of Financial Regulation 571 .

actions had not been taken in terms of Financial Regulation 571 in respect of them. remaining balance to be released.

### 1.7 Non-compliance with Laws, Rules and Regulations

The instances of non-compliance with laws, rules and regulations observed during audit checks are as follows.

Reference to Laws, Rules and Regulations	Audit Observation	Comments of the Management	Recommendation
(a) Section 4 of the National Institute of Co-operative Development (Incorporation) Act No. 1 of 2001	The objectives of the Institute such as to promote and coordinate activities related to cooperative development, provide training through modern technical methods, promote research on cooperative development, manage cooperatives that require skills, provide professional advice and establish model cooperative villages and trade centers should be carried out.	A project is being carried out to promote activities related to the development of cooperatives, which are the objectives of the Institute, and to manage co-operatives that require coordination skills and provide career advice in terms of Section 4 of the National Institute of Co-operative Development (Incorporation) Act No. 01 of 2001 by employing experts in the field of cooperatives and in the fields of management and technology, by selecting co-operative societies that need management at the provincial level on a voluntary basis as per the instructions and guidance of the Line Ministry.	Plans should be prepared and implemented to achieve the objectives of the Institute.

(b)	Public Finance Circular No. 01/2020 dated 28 August 2020	Although the ad hoc sub-impressts should be settled as soon as the relevant task is completed, the ad hoc sub-impressts amounting to Rs. 340,058 given to 06 officials in 16 cases had been settled in delay from 13 days to 70 days .	There has been a delay in accounting in the Accounts Division.	Actions should be taken in terms of Financial Regulation.
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**2. Financial Review**

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**Financial Results**  
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The operating result of the year under review was a deficit of Rs. 941,564 and the corresponding deficit for the preceding year was Rs. 10,237,824 . Accordingly, an improvement of Rs. 9,296,260 was observed in the financial results.. The increase of grant receipts for the recurrent expenditure by Rs. 15,459,445 had mainly attributed to this improvement.

**3. Operating Review**

**3.1 Management Inefficiencies**

Audit Observation	Comments of the Management	Recommendation
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(a) The motor vehicle valued at Rs. 2,000,000 and the jeep valued at Rs.8,000,000, that had temporarily given to the Institute by the Ministry of Internal Trade and Food Security on 19 February 2015 and 11 February 2020 respectively had not been taken over and a total of Rs. 417,481 had been incurred on 02 occasions as repair costs.	It has been informed that the necessary steps will be taken to take over immediately.	Vehicles should be taken over.

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| <p>(b) As a result of actions were not taken to rent out the ground floor of the multi-purpose building belonging to the Institute, which was assessed by the Valuation Department at a monthly rent of Rs.60,000, from 23 March 2018 to 31 December of the year under review and the ground floor of the building had remained in idle and 462 units of goods valued at Rs. 6,020,415 including computer labs, computer accessories in this multipurpose building, had in remained idle for more than a year.</p> | <p>It has been informed that it has agreed to lease for 05 years to the Kandy Multi Purpose Cooperative Society for business activities.</p>                                                                                                            | <p>The assets owned by the Institute should be used for income generation.</p>             |
| <p>(c) Due to existing weaknesses in the planning and construction of the Mahinda Rajapaksa Theater which was built at a cost of Rs.369,116,705 in 2014 and due to lack of focus on revenue generation, only an income of Rs.480,000 was earned in respect of 04 cases in the year under review.</p>                                                                                                                                                                                                               | <p>It has been informed that , due to the decrease in the use of the auditorium because of the Corona epidemic situation, the income has declined and actions will be taken to revise the rates and to increase the revenue by expanding the space.</p> | <p>Assets should be effectively utilized.</p>                                              |
| <p>(d) The income earned from the circuit bungalow which was luxuriously renovated in the year 2015, at a cost of Rs.16,000,000 in the year under review was Rs. 244,000 and actions had not been taken to increase to utilization of the circuit bungalow by expanding the advertising .</p>                                                                                                                                                                                                                      | <p>It has been informed that the actions will be taken to utilize the assets effectively and to increase the income.</p>                                                                                                                                | <p>Assets should be effectively utilized and efforts should be made to earn an income.</p> |

### 3.2 Idle or Underutilized Property, Plant and Equipment

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- The Mahaweli building complex consisted of two floors and the guardhouse belonging to that built in the year 1999 at a cost of Rs.2,368,359 had remained in idle since 2002 without any use.	----- Arrangements are being made to provide to the Flower Growers' Co-operative Society on a lease basis for running an outlet.	----- Assets should be effectively utilized.