

## **National Institute of Co-operative Development – 2011**

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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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 2011 and its financial performance for the year then ended in accordance with Sri Lanka Accounting Standards.

#### 1.2 Comments on Financial Statements

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##### 1.2.1 Sri Lanka Accounting Standards

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The following non-compliances were observed.

Reference to Sri Lanka Accounting Standard	Non-compliance
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Standard 18	(i) Action had not been taken either to write off from books or to disclose in the financial statements the value of fixed assets which had been eliminated from use over a period exceeding 05 years.
	(ii) The fully depreciated assets, of which purchase price amounted to Rs.13.38 million and being in use at present had not been revalued and brought to account.
	(iii) Computers and computer accessories machinery and equipment, motor vehicles and library books, etc. had not been depreciated based on the useful life span of the asset.

1.2.2 Accounting Deficiencies

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The following accounting deficiencies were observed.

- (a) Eight items such as cheques not presented for payment, unrealized cheques, money orders, direct credits by banks, direct debits by banks, dishonoured cheques, balances to be amended in the cash book and bank charges that had not been settled totaling Rs.424,781 relating to 05 bank accounts had been shown continuously in the Bank Reconciliations over a period exceeding 05 years. Action had not been taken to reconcile and rectify and correctly account for them.
- (b) Consumable articles such as curtains, bed sheets and mattresses amounting to Rs.106,025 purchased during the years 2001 to 2010 for the hostel rooms and lecture halls had been brought to account under fixed assets.

1.2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Five balances receivable comprising course fees, external services charges, printing charges, lease rent of buildings and charges for water totaling Rs.1,312,326 remaining outstanding for periods ranging from 01 year to 05 years had not been recovered.
- (b) The balances of Value Added Tax receivable amounting to Rs.13,446,550 accumulated over a period exceeding 05 years as at 31 December 2011 had not been recovered from the Department of Inland Revenue. Those account balances had been shown in the accounts over a period exceeding 05 years without being reconciled.
- (c) Action had not been taken even by 31 December 2011 to settle the creditors balances amounting to Rs.268,508 accumulated in 04 accounts over a period exceeding 03 years.

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

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The following non-compliances were observed.

Reference to Laws, Rules,  
Regulations and Management  
Decisions etc.

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Non-compliance

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(a) Establishments Code of the  
Democratic Socialist Republic  
of Sri Lanka

(i) Section 5.3 of Chapter XIX Instead of recovering 10 per cent of the salary or the economic rent from the employees occupying scheduled Government Quarters, a small nominal rent had been recovered from the employees occupying the official quarters of the Institute.

(ii) Section 12 of Chapter VII Allowances totaling Rs.104,575 had been paid and Public Administration irregularly to a Lecturer for acting in the post of Circular No.06/97 of 03 the Director (Academic and Development) for a February 1997. period exceeding 02 years by 31 December 2011.

(b) Financial Regulations of the  
Democratic Socialist Republic  
of Sri Lanka

Financial Regulation 756

Fixed assets valued at Rs.64,056,244 had not been surveyed and furnished the Board of Survey Reports to audit.



The following observations are made in this connection.

- (i) The expenditure had exceeded the income earned by the Institute by a sum of Rs.98.82 million during the 06 years from 2006 to 2011.
- (ii) Even though the Institute had a cumulative deficit of Rs.98.82 million excluding the Government grants during the 06 years from 2006 to 2011, that had been prevented due to the receipt of grants amounting to Rs.108.58 million from the Government. As such the uncertainty of the going concern of the Institute cannot be ruled out in audit.

3. Operating Review

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3.1 Performance

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The following observations are made.

- (a) It had not been possible even during the year under review to perform the following major functions expected to be achieved by the incorporation of the Institute in terms of Section 4 of the National Co-operative Development Institute (Incorporation) Act, No.1 of 2001.
  - (i) Promotion of research on Co-operative Development.
  - (ii) Acting as a resource centre for the 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) Provide 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	2011				2010	
	Targeted		Actual		Actual	
	Number of Courses	Number of Participants	Number of Courses	Number of Participants	Number of Courses	Number of Participants
Permanent Training Courses	02	83	03	110	02	97
Higher Diploma Courses	14	280	16	297	10	210
Certificate Courses	06	125	05	81	06	135
Short term Management Development Courses	27	735	12	351	10	473
Courses conducted at the request of External Institutions	-	-	16	682	34	1,347
Courses conducted free of charge for the Advancement of the Co-operative Sector	-	-	08	380	14	498
Assisting Programmes for External Degrees and Professional Accountancy Examination	-	-	04	57	-	-
<b>Total</b>	<b>49</b>	<b>1,223</b>	<b>64</b>	<b>1,958</b>	<b>76</b>	<b>2,760</b>

The following observations are made in this connection.

- (i) The performance relating to the conduct of the Short Term Management Development Courses in the year under review had been 44 per cent and the participation of course beneficiaries had been 48 per cent of the targeted number.

- (ii) The number of courses conducted free of charge for the Advancement of the Co-operative Sector during the year under review had been 08 and as compared with the preceding year indicated a decrease of 43 per cent.
- (iii) The performance on the conduct of Certificate Courses and the participation of course beneficiaries during the year under review had been 83 per cent and 65 per cent respectively.
- (iv) The decrease in the conduct of courses at the request of external institutions during the year under review as compared with the preceding year had been 53 per cent.
- (v) Even though the conduct of Assisting Programmes for External Degrees and Professional Accountancy Examinations had been commenced in the year under review, the targets had not been determined. Only 57 trainees had participated in the 04 Programmes conducted.
- (c) The income received from the courses conducted by the Institute in the year under review as compared with the preceding year is given below.

Course -----	2011		2010
	Targeted -----	Actual -----	Actual -----
	Rs.	Rs.	Rs.
Permanent Training Courses	559,860	429,598	551,736
Higher Diploma Courses	2,840,688	2,051,083	2,346,221
Certificate Courses	1,607,833	1,240,529	1,314,390
Short term Management Courses	2,470,000	3,568,596	2,651,412
Assisting Programmes for Professional Accountancy Examinations	-	197,700	-
Assisting Programmes for External Degree Examinations	-	193,750	-
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	<u>7,478,381</u>	<u>7,681,256</u>	<u>6,863,759</u>
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The following observations are made.

- (i) Even though 14 Higher Diploma Courses and 280 course beneficiaries for that had been targeted indicating an expected income of Rs.2,840,688, therefrom, the number of courses and the number of course beneficiaries by the end of year under review had exceeded the target by 02 and 17 respectively. Nevertheless, the targeted income had decreased by a sum of Rs.789,605 from the targeted income.
- (ii) The total course income during the year under review, as compared with the preceding year had increased by a sum of Rs.817, 497 or 12 per cent.

### 3.2 Underutilization of Funds

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The following observations are made.

- (a) Due to the inordinate delay in the construction of the auditorium, the capital grant of Rs.27,652,257 received from the Treasury had been idling in the Bank Current Account for about 02 years without being utilized.
- (b) Due to the delay in the implementation of the National Co-operative Sector Productivity Performance Competition Programme, a grant of Rs.1,202,148 received from a State Bank had been idling for 02 years in a Bank Current Account without being utilized.

### 3.3 Transactions of Contentious Nature

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Even though the assessed annual rent of the ground floor of the Multipurpose Building, amounted to Rs.399,000 that had been irregularly rented out to a Federation of Co-operative Societies at an annual rent of Rs.195,000 for a period of 05 years from 01 April 2010 to 31 March 2015. As such the Institute had been deprived of a rent income of Rs.341,250 up to 31 December 2011.



3.4 Idle and Under Utilized Assets

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Three printers of the Printing Division had been idling without being used over a period exceeding 10 years.

3.5 Deficiencies in Contract Administration

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(a) Construction of the Auditorium

The construction of the Auditorium had been awarded to a private construction company at a cost estimate of Rs.44.5 million in August 2001. Even though the construction should have been completed by the end of April 2003 the work had been stopped halfway due to the collapse of the roof during construction on 14 February 2005. Nevertheless, the construction of the balance work including the full construction of the roof at a new cost estimate of Rs.113 million had been awarded to the Central Engineering Consultancy Bureau in the year 2009. The work had not been completed even by 30 July 2012.

The following observations are made in this connection.

- (i) According to Report on the Settlement of Arbitration of Disputes supplied 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 on the loss incurred from the collapse of the roof, an order had been made to take legal action for the recovery of the loss amounting to Rs.3,907,904 caused to the Institute from the consultant who supplied Consulting Services for construction works and the Construction Company (at 50 per cent each). Nevertheless, legal action for the recovery of that loss had not been taken even up to 30 September 2012.
- (ii) The institution concerned had not been informed to take disciplinary action against the consultant who supplied Consultancy Services while being in public service for this construction in private capacity without approval and obtaining consultancy fees amounting to Rs.2.15 million.
- (iii) While the construction work was commenced and in progress the work was again stopped in May 2012 due to the changes made in the construction designs. Construction work had not been commenced

again up to 30 September 2012. Action had been taken to obtain a cost-estimate of Rs.97.5 million only in accordance with the new construction designs.

- (iv) The construction work which could have been completed for Rs.44.5 million had increased by Rs.210.5 million that is up to Rs.255.0 million due to the inordinate delay of 11 years from the commencement of construction in the year 2001 to 31 December of the year 2012 and the revision of construction designs.

(b) Procurement of Services

The following observations are made in connection with the procurement of services such as Security, Cleaning and Canteen Services in the year under review.

- (i) Despite inviting bids for the supply of Security, Cleaning and Canteen Services for the year under review and the selection of the bidders, the 03 contracts had been awarded to the company which had not submitted bids, on the quotations obtained from that company irregularly. As such the Institute had incurred a loss of Rs.1,536,440 per year.
- (ii) Despite existence of the above irregular position, bids had not been invited for the year 2012 and the 03 contracts had been awarded again to the same private institution by extending the period of contract agreements.

3.6 Staff Administration

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The approved cadre of the Institute had been 59 and the actual cadre had been 35 thus resulting in 24 vacancies. Even though the approval in terms of Financial Regulation 71 had been granted for filling the vacancies, action had not been taken to fill the vacancies.

4. Accountability and Good Governance  
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4.1 Presentation of Financial Statements  
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In terms of the Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 the financial statements for each year should be presented for audit within 60 days from the close of the financial year, the financial statements for the year 2011 had been presented only on 26 July 2012.

4.2 Corporate Plan  
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Even though a Corporate Plan covering the years 2012 - 2016 had been prepared, it had not been prepared in accordance with the instructions in the Public Enterprises Circular No.PED/12 of 02 June 2003.

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

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

5. Systems and Controls  
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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) Arrears of Income.
- (c) Contract Administration.
- (d) Human Resources Management.