

National Institute of Co-operative Development – 2015

The audit of financial statements of the National Institute of Cooperative Development for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 22 of the National Institute of Cooperative Development (Incorporation) Act, No.1 of 2001. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 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 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Sri Lanka Accounting Standard 16

As a revaluation of the lands and buildings had not been carried out after the year 2001, those assets had not been presented in the accounts at the fair value .

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The pensions gratuity funds relating to the preceding years had not been computed accurately and the pensions gratuity payable for the year under review had been overstated by Rs.134,944 in accounts.
- (b) Expenditure over income of Rs.1,204,863 incurred for the productivity competition conducted in the years 2007 and 2009 had been continued to be shown in the financial statements as accrued expenses without being settled.

2.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The course fees receivable totalling Rs. 1,899,780 indicated 33 balances valued at Rs.1,040,665 older than 01 year and 5 balances valued at Rs.111,372 older than 5 years.
- (b) The balances receivable from external training programmes totalling Rs.1,345,222 included balances totalling Rs. 493,635 older than 5 years.
- (c) The Department of Cooperative Development had not reimbursed the sum of Rs.160,754 spent by the Institute for a member of the Board of Management who proceeded abroad from 28 October 2012 to 04 November .
- (d) Even though balance of Value Added Tax amounting to Rs.34,454,406 receivable from the Department of Inland Revenue had been accounted as receivable , there was no confirmation on the receipt of that amount.

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

The following instances of non-compliance with Provisions in Laws , Rules, Regulations and Circulars were observed.

Reference to Laws, Rules, Regulations etc.

Non -compliance

- (a) Employees’ Provident Fund Act, No.15 of 1958

Section 47

The contributions payable to the Employees’ Provident Fund since the date of establishment of the Institute had been computed and paid on the basic salary.

- (b) Employees’ Trust Fund No.46 of 1980

Section 44

The contributions payable to the Employees’ Trust Fund since the date of establishment of the Institute had been computed and paid on the basic salary.

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

(i) Financial Regulation 757(2) and Paragraph 4 of the Public Finance Circular No.02/2014 of 17 October 2014

The Board of Survey of the Student Hostel for the year 2015 had not been conducted and copies of the Board of Survey Reports had not been furnished to the Auditor General.

(ii) Financial Regulation 880

Security had not been obtained from 07 officers who are required to give security in accordance with the Public Officers(Security) Ordinance .

(d) Section 8.2.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.

A sum of Rs.5 million had been invested without obtaining the approval of the Finance Minister and the Minister of the in charge of the subject.

2.2.5 Transactions without adequate Authority

A sum of Rs.1,146,038 should have been received to the Institute for the deployment of the bus belonging to the Institute for running 14644 kilometers of journeys of non -official nature without the approval of the Board of Control in 59 instances from 22 January 2012 to 03 January 2015 . However, action had not been taken for the recovery of that money even up to 29 April 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2015 had resulted in a surplus of Rs.1,156,557 as against the deficit of Rs.5,786,120 for the previous year thus showing an improvement of Rs.6,942,677 in financial results in the year under review as compared with the preceding year . The improvement was attributed to increase in the income by Rs.2,232,437 and the decrease in the transport expenses by Rs.2,331,146 .

In the analysis of financial results of the year under review and 04 preceding years, a continuous deficit in the financial result from the year 2011 to the year 2014 had existed whereas a

surplus existed in the year 2015 .. However, taking into consideration the employees remunerations and the depreciation on non-current assets, the contribution of Rs.26,548,041 in the year 2011 had decreased to Rs.19,524,394 in the year 2012, but it had increased gradually in the following years and had been Rs.55,241,605 in the year under review.

3.2 Legal Action Initiated Against the Institute or by the Institute

The following observations are made.

- (a) Seven cases on unauthorized occupation of official quarters , obtaining services and compensations had been instituted against the Institute and compensations of Rs.379,673 had been requested relating to 02 cases .
- (b) A case had been filed by the Institute for the recovery of the house rent amounting to Rs.425,406 and the interest thereon receivable in connection with the occupation of government quarters.

4. Operating Review

4.1 Performance

- (a) The objectives of the Institute in terms of Section 4 of the National Institute of Cooperative Development (Incorporation) Act, No.1 of 2001 are as follows.
 - (i) Supply of trainings into the development of co-operatives utilizing modern technological methods.
 - (ii) Promotion of research into the development of co- operatives
 - (iii) Management of co-operative enterprises in need of management skills envisaged.
 - (iv) Supply of professional advice to the co-operative enterprises
 - (v) Establishment of model Co-operative Villages, model Co-operative trade centres.

The above main functions which are to be achieved by establishing the Institute had not been fulfilled adequately.

- (b) The following observations are made in respect of the progress of the conduct of courses in the year under review.
 - (i) Even though 11 external Degrees and vocational support programmes had been conducted in the previous year, those courses had not been conducted in the year under review.

- (ii) Conducting Diploma Courses ,Certificate Courses and Short Term Courses in the year under review had been at a very low level as compared with the preceding year.
 - (iii) Even though the prime function of the Institute was to perform the academic and training activities by utilizing the resources of this Institute efficiently and productively in a maximum level and provision of relevant facilities relating to that purpose , the progress of conducting courses had been at a very low level.
- (C) Even though according to the Action Plan, it had been targeted to enroll 1450 trainees for 58 courses for 7 curriculums during the year under review, the target could not be achieved as to only 992 trainees had been recruited for 41 courses . As such there was a decrease of the actual income by Rs.2,243,890 according to the original Action Plan and a decrease of Rs.1,116,000 according to the revised budget of the year under review, as compared with the targeted income from the short –term training courses and vocational training courses of the Institute.

4.2 **Operating Activities**

The following observations are made.

- a) A general time table in respect of the expected lectures of the Lecturers and the other activities thereon had not been prepared monthly according to the Action Plan and it had not been confirmed that the lectures had been done properly by placing time and signatures on the Attendance Registers.
- b) Action had not been taken to issue the results of 13 courses conducted for 463 trainees in the year under review and the preceding years even by 06 May 2016
- c) An analysis of the results issued during the period from the year 2010 to the year under review , the percentage of the students who followed 12 courses passing the examinations ranged between 9 per cent to 70 per cent.

4.3 **Underutilization of Funds**

The following observations are made.

- (a) A sum of Rs.20,000,000 out of the provisions of Rs.75,445,000 received for 08 Projects in the year 2015 had been utilized for the repayment of loans and the balance provision amounting to Rs.55,445,000 had been retained in the Current Accounts without being utilized in the Projects.

- (a) A sum of Rs.238,855 had been retained by the Institute in a Bank current account from the year 2007 without investing effectively.

4.4 Procurement Contract Procedure

Examination of the modernization of the Ratnayake Hall, D and G Hostels and Chairman's Room

The following observations are made.

- a) In the award of 4 contracts totalling Rs.19,414,918 limited quotations had been invited without the approval of the Procurement Committee, two of the quotations received had been considered and according to a decision of the Board of Management of the Institute, agreements had been entered into with the State Engineering Corporation. Even though the agreements stipulated that the contract should be completed by 30 November 2015, those had not been completed even by 29 April 2016.
- b) New estimates amounting to Rs.14,441,937 exceeding the original estimate had been prepared for the 4 Projects which could not be completed in the year under review in terms of the Agreement.

4.5 Staff Administration

The following observations are made.

- a) Even though according to the decisions made by the Board of Management, the minimum number of hours a Lecturer should cover per month was 60 hours, the total number of lecture hours conducted in the year 2015 by 06 Lecturers was 1743. Accordingly, lectures conducted in the year had been less by 2577 hours. A sum of Rs.3,483,900 had been paid as external resources allowances in the year under review due to obtaining the service of external Lecturers due to the underutilization of the number of lecture hours that should be conducted by the internal Lecturers being 2577.
- b) A sum of Rs.4,779,312 as salaries and allowances and an allowance of Rs. 900,846 as the charge of preparation of question papers, evaluation of answer scripts, preparation of tutorials, coordination of courses and evaluation of skills had been paid in the year under review for the permanent Lecturers. Accordingly, the monthly salary had been limited only for the conduction of lectures.

5. **Accountability and Good Governance**

5.1 **Budgetary Control**

Savings ranging from 28 per cent to 55 per cent had been made from the provisions of expenditure relating to 6 items of expenditure for the year under review and a sum of Rs.1,557,974 had been spent exceeding the budgeted provision of 3 items of expenditure. Even though a sum of Rs.1,260,000 had been estimated as the income of foreign courses fees , it had failed to obtain that income and underestimations had been made for 05 items of income . Further, a significant variances ranging from 10 per cent to 99 per cent were observed between the budgeted and the actual income in six items of income, thus indicating that the budget had not been made use of as an effective instrument of financial control.

5.2 **Unresolved Audit Paragraphs**

Even though it had been shown in the Audit Report for the preceding year that an adequate attention had not been paid on conducting the Board of Survey on the due date, disposal of the goods costing Rs.4,107,280 eliminated from the Auditorium without a report of an independent assessor , giving 02 vehicles belonging to the Institute to the personal staff of the Minister without proper approval .

6. **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.

Area of System and Control	Observations
-----	-----
(a) Fixed Assets Control	Annual Board of Surveys had not been conducted on the due date and registers had not been maintained.
(b) Accounting	Accounting for the expenditure and allocation of provisions had not been done properly.
(c) Debtors and Creditors Control	Balances outstanding over a long period had not been settled and confirmation of balances had not been obtained.

- (d) Utilization of Vehicles
Daily Running Charts and Monthly Performance Summaries had not been furnished to the Auditor General and action had not been taken in terms of Financial Regulation in respect of damage to vehicles.
- (e) Financial Control
Investment of the money in fixed deposits without an approval and a significant amount of money had been retained in Bank Current Accounts.
- (f) Human Resources Management
Action had not been taken to fill the vacancies and obtaining the service of external Lecturers despite the underutilization of internal Lecturers.