

1.1 Opinion

The audit of the financial statements of the National Institute of Cooperative Development for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 the provisions of the National Audit Act No. 19 of 2018 and the Finance Act No.38 of 1971. Comments and Observations, which I consider should be submitted to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the National Institute of Cooperative Development as at 31 December 2020, 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 Opinion

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

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 intends 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 institute.

1.4 Auditor's Responsibility on the Audit of the Financial Statements

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 board 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 Accounts Receivable and Payable

1.5.1 Cash Receivable

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
The value of 6 accounts balances receivable as at 31 December of the year under review totaled Rs.4,647,242 and it included the balances totaled Rs.2,160,384 continued to exist over a period from 1 year to 5 years and balances of Rs.1,129,054 remained unsettled for more than a period of 05 years.	Actions are been taken to collect the cash receivable.	Actions should be made to collect the cash without delay.

1.5.2 Cash payable

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
The value of 7 accounts balances payable as at 31 December of the year under review totaled Rs.47,584,416 and it included the balances totaled Rs.46,636,251 unsettled over a period from 1 year to 5 years and balances of Rs.265,319 remained unsettled for more than a period of 05 years.	Actions are been taken to pay the cash payable.	Actions should be made to pay the cash without delay.

1.6 Non – compliance with Laws, Rules and Regulations

Reference to Laws, Rules and Regulations	Non – Compliance	Comments of the Management	Recommendation
-----	-----	-----	-----
Section 5:6 of chapter XIX of the Establishment Code of	Even though the economic rent is applicable only for a	Request have been made to revise the rent from the	Actions should be made in accordance with the provisions of the

the Democratic Socialist Republic of Sri Lanka. year, rent was charged for the government quarters until 31 December 2020 based on the valuation that had been done in the year 2014. Valuation Department. Establishment Code.

2. Financial Review

Financial Results

The operations of the Institute for the year under review had resulted in a deficit of Rs.10,237,824 corresponding the deficit of Rs.6,193,164 for the proceeding year, thus observing an deterioration of the financial results by Rs.4,044,660. This deterioration was mainly due to deterioration of income.

3. Operating review

3.1 Management inefficiencies

Audit Observation

Comments of the Management

Recommendation

In 3 August 2017 the management approval had been given and 30 May 2019 Management decision has been made in addition to the below mentioned Hela Bojunhala to setup a cooperative production stall and project proposal was made, actions had not been taken to implement the management decision even until May 2021 to use the building for a useful task which book valued Rs.1,200,000 situated in Polgolla Uyanwatta Junction that belongs to the National Institute of Cooperative Development, joining with the Agricultural Department to setup a Hela Bojunhala

According to decision taken by the Management Board it was decided to set up a cooperative production stall not limiting to the Hela Bojunhala. Accordingly the establishment of Hela Bojunhala was suspended temporarily and actions were taken to make a project proposal as to the management board decisions dated 30 May 2019.

Actions should be taken to implement the management decisions immediately.

3.2 Operating Inefficiencies

Audit Observation

Comments of the Management

Recommendation

Promoting actions regarding cooperative development and cordination training using new

Due to 44 positions been vacant out of 71

Actions should be taken to plan and

technology promoting researches relating to cooperative development, managing the cooperatives which needed skills, giving professional advice and establishing model cooperative villages and market complexes should be established according to the goals of Section 4 of the National Institute of Cooperative Development (Incorporation) Act, No.01 of 2001

approved staff positions during the years 2019 / 2020 it was an obstacle to fully complete the actions which were planned. But in 2020 had completed adequately.

implement in order to perform the actions and task identified when the institution was incorporated.

3.3 Unused and underutilized property, plant and equipment

Audit Observation

The Cooperative Co-op city which was done in 2979 square feet in the ground floor of multi - task building built in National Cooperative Development Institute was unused after 25 August 2017 and a gross income of Rs.2,400,000 has been lost due to not taking action to give lease for a other party.

Comments of the Management

Decisions are to be taken to fully utilize the resources of the multi – task section.

Recommendation

Actions should be taken to plan and implement to fully utilize the resources belongs to the institute.

3.4 Human Resource Management

Audit Observation

34 positions were vacant and the actual staff was 37 as at 30 April in the year 2021 even though the approved number of positions were 71 in the National Co-operative Development Institute.

Comments of the Management

Approval was given to recruit 28 officers for 17 positions by the Management Service Department and still for 16 positions the approval was not given.

Recommendation

Actions should be taken to fill vacancies.

4. Accountability and Good Governance

4.1 Budget Control

Audit Observation

When making the reconciled budget statement which was approved for second time on 24 November 2020 after reconciling two times the budget statement which was approved on 08 June 2020, it was not used as a successful controlling equipment due to a variance of income and expenditure from 5.23 percent to 53.47 percent even

Comments of the Management

It has been said that the budget 2020 was reconciled two times due to not been able to fulfill the targeted income and expenditure in the Covid – 19 situation throughout the year and reconciling 4 times the allocated by the treasury.

Recommendation

Actions should be taken to use the correct figures as much as possible when making estimations.

though the actual income and expenditure up to October year 2020 was taken into consideration.

4.2 Sustainable Development Goals

----- Audit Observation

In terms of Agenda 2030 the Sustainable Development Goals had not been identified according to its scope, and also the institute has not prepared a cooperate plan.

----- Comments of the Management

It has been planned to set goals by identifying the Sustainable Development Goals and getting approval from the next management board and planning future actions.

----- Recommendation

Actions should be taken to prepare plans and implementing in order to identify the sustainable development goals and achieving them.