

National Institute of Co-operative Development - 2023

1.1 Financial Statements

1.2 Qualified Opinion

The audit of the financial statements of the National Institute of Co-operative Development for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance for the year then ended, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 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 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 institute as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.3 Basis for Qualified Opinion

My opinion is qualified 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

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 institute.

1.4 Auditor's Responsibilities for 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 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 Audit Observations on Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Without revaluation of 06 assets which is the effective lifetime has exceeded on the end of the year under review as per 42 of the Public Sector Accounting Standard No.07, Rs.56,667 which were depreciated in the previous year had been stated as the depreciation value of the year under review as well.	Action will be taken to rectify during the preparation of the 2024 final accounts.	Assets should be revalued according to Sri Lanka Public Sector Accounting Standards.
(b) Although the fixed deposit interest receivable was Rs.1,531,479 as at the end of the year under review, it had been accounted as Rs.1,332,011 less by Rs.199,468.	That it will be corrected in the year 2024.	Interest on fixed deposits should be calculated and accounted correctly.
(c) As the details of the disposed assets related to the machines and machinery of Rs.2,186,700 and the furniture and equipment of Rs.1,870,300 which were stated as disposals during the year under review according to the notes related to fixed assets in the financial statements were not submitted to the audit, the correctness of those asset balances was not confirmed.	Comments were not made.	Details of disposed assets should be maintained.

1.5.2 Unreconciled Control Accounts

Audit Observation	Comments of the Management	Recommendation
There was a difference of Rs.111,297,035 when comparing the balances of 06 accounting subjects shown in the financial statements as at the end of the year under review	That the provision of depreciation had to be shown as a separate issue and that the bills presented by the CECB were questionable and	Discrepancies should be identified and account balances should be corrected.

with the related schedules and balance confirmation documents. that they would be discussed and resolved.

1.5.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Management	Recommendation
Due to non-submission of fixed asset register, balance confirmation letters and files related to 13 subjects of assets and liabilities totalling Rs.73,924,681 shown in the financial statements as at the end of the year under review, they could not be satisfactorily verified in the audit.	Comments were not made.	Details of account balances should be completed and accuracy should be verified.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
The total of the 02 receivable balances as on 31 December of the year under review was Rs.3,014,533 and out of which Rs.790,462 for more than 05 years had not been recovered.	That there is a problem in recovering the balance of Rs.145,340 and legal actions have been taken to recover Rs.645,122.	Receivable balances should be recovered.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
The total of 02 payable balances on 31 December of the year under review was Rs.10,032,374 and out of which Rs.108,451 related to the period between 01 and 05 years and Rs.9,923,923 more than 05 years were not settled.	That the necessary arrangements are being made for settlement.	Payable balances should be settled.

2. Financial Review

Financial Result

The operating result of the year under review was a surplus of Rs.3,003,434, and correspondingly the deficit of the previous year was Rs.5,547,435. Accordingly, an increase of Rs.8,550,869 was observed in the financial result. This growth was mainly due to a 17 percent increase in revenue despite the recurrent expenses increased by 9 percent during the year.

3. Operational Review
3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the course income of the professional sector was 33 percent of the total course income in the year 2019 and 2020, a course income that could have been earned had been lost due to the temporary closure of this sector from the year 2021.	That the sector has been closed from the year 2021 on the decision of the management board.	Actions should be made to increase the course income of the temporarily closed sector.
(b) A van of the company met with an accident on 17 November 2022 in the Kollupitiya area and although a complaint was filed in the Kollupitiya police station on that day, a copy of the complaint had not been obtained. Even though a private garage estimated the cost of repairs to be Rs.45,000, the accident had not been investigated in accordance with Financial Regulations 104 (3) and 104 (4) and action had not been taken to recover the loss from those responsible for the loss or from the relevant insurance company as of the date of the audit. The damage to the van had not been repaired as of 20 September 2023.	Comments were not made.	Actions should be taken to recover the loss as per the Financial Regulations.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) According to the management board decision dated 31 July 2020, although an internal lecturer should conduct lectures for a minimum of 60 hours per month, due to insufficient number of courses being planned and conducted, 09 lecturers were employed for lectures for less than 60 hours per month during the period from January to June of the year under review and three lecturers	On the advice of the Secretary to the Ministry, the number of lecture hours has been decided as 40 hours and co-curricular activities as 20 hours by now and it has been advised to coordinate the courses in the relevant fields and intervene in their studies to solve this shortcoming in the future.	The staff should be employed effectively and efficiently.

were not assigned at least to a single lecture in 03 months. Also, the hours of lecturing of 03 lecturers in 02 months and 04 lecturers in one month were not submitted to the audit.

- (b) During the inspection regarding the utilization of 09 hostels with 120 rooms, the rooms in the 09 hostels were underutilized due to the fact that only 04 percent to 20 percent utilization had been made compare with the days available for use of the rooms in the first 06 months. The 02 hostels with 38 rooms in that were not used in the month of April and 02 hostels with 06 rooms were used only for one day in the month of January.
- Although the training activities are conducted under the online system due to fuel crisis, power cut and the economic crisis in the country and the conducting external institute programs are reduced, the level of utilization has reached a high value since July 2023.
- Underutilized assets should be utilized and generate revenue.
- (c) A part of the ground floor of the multi-purpouse building consisting of 3564 square feet was closed without utilizing and due to the temporary closure of the courses in the professional sector, that section was also not used for generation of income. It was also observed that A13 and A12 rooms in the old office building were underutilized.
- Although the actions have been implemented to utilize the premises of the multi-purpose building, approval was not received from the Ministry, and A 13 and A 12 rooms will be used to hold lectures via online.
- Assets should be properly utilized.