

**National Institute of Business Management and Its Subsidiary – 2013**

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The audit of financial statements of the National Institute of Business Management and Its Subsidiary for the year ended 31 December 2013 comprising the consolidated financial statements at 31 December 2013 and the consolidated statement of comprehensive income and 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 Finance Act No 38 of 1971 and Section 24 of the National Institute of Business Management Act No 23 of 1976. Accounts of the subsidiary company had been audited by a firm of Chartered Accountants appointed by its members. 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 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 misstatements 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 power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate audit evidence 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 – Institute

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 Business Management as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Qualified Opinion – Group

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 consolidated financial position of the National Institute of Business Management and its Subsidiary as at 31 December 2013 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on the Financial Statements

2.2.1 Accounting Deficiencies

Action had not been taken either to pay the tax liability amounting to Rs. 189,830,059 payable in respect of the year in terms of Inland Revenue Act 2009/10 or make allocations for that in the accounts.

2.2.2 Lack of Evidence for Audit

The following observations are made.

- a) A sum of Rs. 8,888,576 had been paid as salaries and allowances to 03 officers without confirmation of the times of arrival and departure of those officers during the year under review. The documentary evidence for confirmation thereof had not been furnished to audit.
- b) Value of the obsolete items removed during the renovation of National Institute of Business Management had not been assessed.

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

The following non-compliances were observed.

<u>Reference to Laws, Rules, Regulations, etc.</u>	<u>Non-compliances</u>
a) Section 3(2) (iii) of Nation Building Act (amended ) No 10 of 2011	Nation Building Tax should be computed based on all receipts and income receivable. Nevertheless, the National Institute of Business Management had based in the computation of the tax only the course fees received in cash.
b) Financial Regulation 261(3) of the Democratic Socialist Republic of Sri Lanka	Although cheques should not be written or payments should not be recorded without sufficient cash in the cash book, cheques valued at Rs. 1,829,156 had been written as at 31 December of the year under review. Hence, the balance in the Cash Book had become a negative balance by the said value.

- c) Public Administration  
Circular No 09/2009 dated  
16 April 2009
- All of the officers including the Head of the Institute should confirm their arrival and departure using the finger print scanners. Furthermore, allowances paid after the regular office hours, such as overtime and holiday payments should be confirmed using finger print scanners. But that had not been so done.
- d) Section 7.4.5 of Circular  
No PED/12 dated 02 June  
2003
- A Board of Survey on Fixed Assets had not been conducted by the Institute during the year under review.
- e) Procurement Guidelines on  
25 January 2006.
- i. Section 3.2
- The Institute had deviated from the procurement procedure in the purchase of the new computer software at a cost of Rs. 3,337,588
- ii. Section 4.3
- Quotations had not been called in a single instance by preparing a total cost estimate
- 2.4 Transactions not Supported by Adequate Authority
- The audit could not ascertain the legality of a single person holding both the post of Director of National Institute of Business Management established under the National Institute of Business Management Act, No. 23 of 1976 and its amendments and, the post of Dean of the National School of Business Management established under Companies Act No 07 of 2007.
3. Financial Review
- 3.1 Financial Results
- According to the consolidated financial statements presented, the net profit of the Institute for the year ended as at 31 December 2013 amounted to Rs. 250,164,789 as compared with the corresponding net profit for the preceding year amounting to Rs. 217,785,460. Accordingly, an increase of Rs. 32,379,329 was indicated in the financial result for the year under review and the improvement in the financial result had been due to the increase of the income from the courses.
- 3.2 Analytical Financial Review of the Consolidated Financial Statements
- The operating income for the year under review, as compared with the preceding year, had increased by 31 per cent while the after tax profit as compared with the preceding year had shown an improvement of 19 per cent. An increase of 423 per cent in the financial expenditure as compared with the year 2012, was observed.
- 3.3 Gearing Ratio
- Equity capital of the National School of Business Management amounted to Rs. 814,344,261 whereas, the debt capital amounted to Rs. 1,417,524,425. Accordingly a high gearing ratio (debt / equity capital) of 1.74 was observed.

4. Operating Review

4.1 Operating Inefficiencies

The following observations are made.

- (a) The information on the courses conducted and the number of students enrolled by the National Institute of Business Management during 5 years are given below.

<u>Year</u>	<u>Productivity and Management Development Division</u>		<u>Management Information Systems Division</u>	
	<u>Number of Courses</u>	<u>Number of Students Enrolled</u>	<u>Number of Courses</u>	<u>Number of Students Enrolled</u>
2009	166	4,697	59	3,513
2010	183	7,014	61	3,941
2011	184	7,282	72	4,141
2012	174	7,008	71	3,739
2013	193	7,450	71	3,504

According to the above information, the Number of student enrollments in the Management Information Systems Division had decreased with the Number of courses unchanged during the year under review.

(b) Operating Income

Operating income of the National Institute of Business Management during the years 2009 to 2013, as compared with the Number of students enrolled, is given below.

<u>Year</u>	<u>Operating Income Rs.</u>	<u>Difference of the Operating Income Rs.</u>	<u>Difference as a percentage</u>	<u>Number of Students Enrolled</u>	<u>Difference of the Number of Students</u>	<u>Difference as a percentage</u>
2009	357,778,605	-	-	8,480	-	-
2010	511,155,236	153,376,631	42.9	10,955	2475	29.2
2011	721,860,817	210,705,581	41.2	11,423	468	4.3
2012	569,075,984	(152,784,833)	(21.2)	10,787	(636)	(5.6)
2013	678,487,780	109,411,796	19.2	10,954	167	1.5

Operating income had decreased as degree courses had been conducted at the affiliated institute in the year 2012 and, it was observed that it was the main factor that affected the total income of the Institute.

4.2 Matters of Contentious Nature

According to the provisions in paragraph 6 of the Board of Investment letter No EC/4/1254/11 dated 17 November 2011 it was informed that the project for the establishment of National School of Business Management should be a completely new project and, the existing business should not be a restructure or a transfer of the resources of a business in Sri Lanka. Nevertheless, it was observed

that the Board of Control of the School had obtained the motor vehicles, academic staff and degree courses of the National Institute of Business Management for the National School of Business Management.

4.3 Identified Losses

A sum of Rs. 89,775 had been paid for the safe removal of windows and doors during the renovation of the buildings of the Institute . A report on the quantities and value of timber removed had not been prepared and , action had not been taken to sell the removed items in a manner favorable to the Institute.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The amended consolidated accounts of the National Institute of Business Management for the year 2013 had been presented to audit only on 24 July 2014.

5.2 Accountability

It was observed that the Annual Reports published by the Institutes in terms of Section 6.1 of Public Enterprises Circular No. PED/ 12 dated 02 June 2003, did not contain accurate numerical data.

5.3 Budgetary Control

Differences in 26 Objects were observed between the revised budget and the actual expenses and as such, it was observed that the budget had not been made use of as an effective instrument of financial control.

6. Systems and Controls

Deficiencies 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) Assets Management
- b) Conducting Courses
- c) Human Resources Management