

National Institute of Education - 2013

The audit of financial statements of the National Institute of Education for the year ended 31 December 2013 comprising the Statement of Financial Position as at 31 December 2013 and the Statement of Financial Performance, 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 19 of the National Institute of Education Act, No. 28 of 1985. 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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-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 judgements, 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 powers 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 to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the National Institute of Education as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

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

The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

| Reference to Laws, Rules and Regulations | Value | Non-compliance |
|--|--------------|---|
| | Rs. | |
| (a) Management Services Circular No.30(I) and 30(II) of 01 June 2009 | 1,365,904 | A test check carried out on salary conversion of 31 officers except the Staff Grade officers of the Institute had revealed that salaries amounting to Rs.1,209,220 had been overpaid during the period from 01 January 2009 up to 30 April 2014 to officers. As such, Employees Provident Funds amounting to Rs.156,684 had been remitted in this connection. |
| (b) Management Services Circular No.30 of 22 July 2006 and National Salaries and Cadre Commission Letter No. NSCC/PO/01/33 of 23 February 2007 | 114,980 | A audit test check out of the 148 Staff Grade officers had revealed that salaries and pension gratuity amounting to Rs.96,480 and Rs.18,500 respectively. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute had resulted in a surplus of Rs.36,496,150 at the end of the year under review as compared with the corresponding surplus of Rs.14,654,153 for the preceding year. According to the Accounting Policy for Government Grants, the error occurred in the non-identification of deferred income amounting to Rs.49,281,011 in the year 2012 had been rectified in the year 2013 whereas the comparative figures of the year 2012 in the final accounts of the year 2013 had been restated. Accordingly, a favourable status amounting to Rs.21,841,997 had been shown

in the financial result and increase in the operating income of Rs.50,636,600 had mainly attributed to this variation.

3.2 Legal Action initiated against the Institute

Three court cases had been filed against the Institute by three persons with regard to dismissal from service on grounds of misconduct and obtaining teacher training certificates.

3.3 Unusual Increase in Expenditure

As compared to the expenditure of the year 2013 with those of the year 2012, variances had been observed as follows.

| Particulars of Expenditure | 2013 | 2012 | Variance | Percentage of Variance |
|----------------------------|-----------|-----------|-----------|------------------------|
| | Rs. | Rs. | Rs. | % |
| Miscellaneous Expenses | 3,964,184 | 969,726 | 2,994,458 | 309 |
| Telephone Charges | 3,156,145 | 1,645,426 | 1,510,719 | 92 |
| Work Shops-Fuel Expenses | 131,374 | 69,871 | 61,503 | 88 |
| Cleaning Services | 8,065,524 | 5,483,419 | 2,582,105 | 47 |
| Postal Charges | 1,072,470 | 728,164 | 344,306 | 47 |
| Advertising | 1,596,123 | 1,184,714 | 411,409 | 35 |
| Water Supply Charges | 1,000,735 | 774,089 | 226,646 | 29 |

The Director General has informed that the reasons for these variances were the increase of goods, Cess, electricity charges, fuel charges, and quotation for tenders.

4. Operating Review

4.1 Performance

4.2 Management Inefficiencies

Six officers of the Institute who had proceeded abroad for academic purposes had not reported for duty thus resulting in a breach of agreement. Therefore, a sum of Rs.11,699,587 was recoverable to the Institute whereas a period ranging from 04 to 12 years had been consumed to take legal action in this connection.

4.3 Irregular Transactions

The following observations are made.

- (a) The suppliers had not been duly registered in accordance with the Government Procurement Guidelines -2006 for purchasing of consumer goods for the cafeteria. As such the opportunity to purchase goods on competitive price had been missed and a financial loss of Rs.1,366,126 approximately incurred. Further, a specific menu had not been followed in preparation of meals while the consumption of one person had

not been considered in purchasing of consumables and such consumables had been purchased in excess causing a loss of Rs.1,067,595 to the Institute. The Director General had informed that legal action had been taken against the officers concerned and weaknesses of the system are being rectified at present and as such it was enabled to increase the income by 13 per cent whilst decreasing the expenditure by 23 per cent.

- (b) Cheques valued at Rs.4,245,925 had been issued to an outside person instead in favour of the owner or his business name in 112 occasions in making payments for suppliers in respect of purchasing consumer goods for the cafeteria.

4.4 Staff Administration

Vacancies and excess in the cadre as at 31 December 2013 as compared to the approved cadre with the actual cadre had been as follows.

| | Approved Cadre | Actual Cadre | Vacancies | Excess |
|--|-----------------------|---------------------|------------------|---------------|
| | ----- | ----- | ----- | ----- |
| Senior Level | 108 | 61 | 47 | - |
| Tertiary Level | 200 | 92 | 108 | - |
| Secondary Level | 223 | 178 | 45 | - |
| Primary Level | 121 | 106 | 15 | - |
| Others(casual/ temporary/contract basis) | - | 29 | - | 29 |
| | ----- | ----- | ----- | ----- |
| Total | 652 | 466 | 215 | 29 |
| | ===== | ==== | ==== | ==== |

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Draft financial statements for the year under review had been presented to the audit on 28 February 2014 while the final financial statements had been presented to the audit on 29 May 2014.

5.2 Budgetary Control

Variances ranging from 24 per cent to 356 per cent were observed between the budgeted amount and actuals during the year 2013, thus indicating that the Budget had not been made use of as an effective instrument of management control.

5.3 Systems and Control

Special attention is needed in respect of the following areas of systems and control observed in audit.

- (a) Procurements for Cafeteria
- (b) Internal Control of Cafeteria
- (c) Accountability
- (d) Cash and Banks
- (e) Controls over Debtors and Creditors
- (f) Procurement Procedure
- (g) Stock Control