

National Institute of Business Management - 2014

The audit of consolidated financial statements of the National Institute of Business Management and Its Subsidiary for the year ended 31 December 2014 comprising the statement of consolidated financial position as at 31 December 2014 and the statement of consolidated 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 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 judgement, 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.

2. **Financial Statements**

2.1 **Opinion – Group**

In my opinion, the financial statements give a true and fair view of the financial position of the National Institute of Business Management and its Subsidiary as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion-Institute

In my opinion, the financial statements give a true and fair view of the financial position of the National Institute of Business Management as at 31 December 2014 and its 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 **Sri Lanka Accounting Standards-16**

Seventy items of assets at a cost of Rs.28,442,953 fully depreciated but in use had not been revalued and brought to account to show their fair value .

2.3 **Accounts Receivable**

Debtors balance remained outstanding for more than 2 years as at 31 December 2014 amounting to Rs.696,186 and a sum of Rs.30,124 from the advance paid for the building situated at Jaffna which was closed on 22 June 2012 had not been recovered even by the end of the year under review.

2.4 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions.	Non-compliances
(a) Section 114 of the Inland Revenue Act, No.10 of 2010	The Pay As You Earn Tax for the incentives paid in the years 2013 and 2014 should be computed based on normal tax table 2 for the deduction at once in the same month paid incentives . Nevertheless, the Pay As You Earn Tax had been computed under normal tax table 1 dividing the incentive by 12 months and adding to the salary of each month separately .

- (b) Paragraph 06 of the Public Enterprises Circular No.57 of 11 February 2011. Even though the approval should be obtained from the Minister of Finance and Planning for the sales promotions activities carried out in excess of the Annual Budget Estimates, contrary to that, a sum of Rs.9,802,706 had been spent by exceeding the estimated amount of Rs.37,500,000 for the promotion activities during the year under review.

3. **Financial Review**

3.1 **Financial Results-Group**

According to the Consolidated Financial Statements presented, the operations of the Group for the year ended 31 December 2014 had resulted in a pre- tax net profit of Rs.410,101,233 as compared with the corresponding net profit of Rs. 500,954,657 for the preceding year, thus indicating a deterioration of Rs.90,853,424 in the financial result for the year under review. Even though the income of the Group had increased by Rs.218,651,066 in the year under review, increase of salaries and allowances by Rs.45,767,148 ,consultancy and training expenses by Rs.192,313,498, establishment and other expenses including depreciation by Rs.71,217,440 had mainly attributed for the above deterioration.

Financial Results-Institute

According to the Financial Statements presented, the operations of the Institute for the year ended 31 December 2014 had resulted in a pre-tax net profit of Rs. 240,026,097 as compared with the corresponding net profit of Rs. 284,752,742 for the preceding year, thus indicating a deterioration of Rs.44,726,645 in the financial result for the year under review. Increase of salaries and allowances by Rs.22,456,978 ,consultancy and training expenses by Rs.12,684,563 establishment and other expenses by Rs.7,723,305 had mainly attributed for the above deterioration.

4. **Operating Review**

4.1 **Performance**

The following observations are made.

- (a) As the income of the courses in the year under review of the National Institute of Business Management increased by Rs.18,374,088 or 2 per cent as compared with the preceding year, the direct expenditure had been increased by Rs.35,141,541 or 18 per cent . As a result, the gross profit of the year had decreased by Rs.16,767,453 or 3.6 per cent as compared with the preceding year.
- (b) The following observations are made in relation to the courses conducted during the year under review and 04 preceding years and number of students participated at the

Head Office in Colombo and Kandy, Kurunegala, Galle and Matara Branches of the National Institute of Business Management.

- (i) Even though 142 courses had been in operation at the Head Office in Colombo in the year 2010 and it had been increased to 150 by the year 2012. However, the number of courses conducted during the year under review had decreased up to 142. Even though the number of students participated in this courses had increased up to 8,139 in the year 2011, it had decreased up to 6,011 in the year under review.
 - (ii) Twenty three courses had been held with the participation of 781 students in the year 2010 at Kandy Branch and it could be gradually increased to 44 courses and the number of students up to 1,428 as at the end of the year under review. However, 1,618 Students participated 48 courses had been conducted during the year 2010 at the Kurunegala Branch but the number of courses conducted in the year under review was 41 participating of 1,166 Students the number of students participated had also been decreased accordingly.
 - (iii) The number of courses conducted in the year 2010 at the Galle Branch was 31 and it could be increased up to 38 by the year 2013 and also increased the number of students accordingly. However, 08 courses had been commenced at the new Matara Branch opened in the year under review and as a result, the number of courses conducted at Galle was 33. A deterioration of 12 per cent was recorded as compared with the preceding year in considering Galle and Matara as a whole.
 - (iv) Even though 11,423 students had participated for 236 courses in the year 2011 considering as a whole, the number participated had increased up to 269 in the year 2014 . However, the number of students participated for the above courses had decreased up to 9,775. The Chairman informed that the reason for this decrease was due to decreased in conducting workshops and short term courses during the year under review.
- (c) The number of students who enrolled during the year under review but dropped out from the courses had been 400. The attention of the Institute had not been paid to examine the reason for leaving students from courses and remedial action taken thereon and improve the number of students enrolled by introducing a new course and implementation of courses, with proper planning.

4.2 **Management Inefficiencies**

The following observations are made.

- (a) Even though the approval had been granted to hand over the land in which the Head Office is situated to the National Institute of Business Management as a donation according to the decision of the Cabinet of Ministers dated 17 October

2013, the legal title of the land had not been handed over to the Institute even by 31 December 2015.

- (b) Even though an education centre had built spending a sum of Rs.302,707,070 as at 31 March 2010 in a land situated at Galle which was decided to hand over to the Institution according to the decision of the Cabinet of Ministers dated 07 November 2007, the legal ownership of this land had not been vested in the institute even up to 31 December 2015 .

4.3 **Idle Assets**

The stationery amounting to Rs.327,324 had remain idle without being used within the stock of stationery amounting to Rs.9,140,508 shown in the financial statements as at 31 December in the year under review.

4.4 **Uneconomic Transactions**

An officer had been appointed, based on the payment of Rs.30,000 per month for a period of 6 months with effect from 08 February 2012 for the post of Coordinating Officer according to a letter of appointment issued on 03 February 2012. Even though , he had served a period of 2 years and 11 months by extending his service up to 12 December 2014, records had not been kept about his arrival and departure during the same period and without being obtained information on the duties he had performed , a sum of Rs.1,050,000 had been paid to him during the relevant period by the Institution.

5. **Accountability and Good Governance**

5.1 **Presentation of Financial Statements**

According to the Paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the draft annual report and the financial statements should be submitted to the Auditor General within 60 days after the close of the financial year. However, the financial statements for the year under review had been submitted to audit only on 10 December 2015.

5.2 **Corporate Plan**

Even though according to the Co-operate Plan prepared from the year 2012 to the year 2016 , it was expected to increase the net profit by 20 per cent annually as compared with the preceding year, the deterioration of the profit in the year under review was 15.7 per cent as compared with the preceding year.

5.3 **Budgetary Control**

In comparing the estimated income and expenditure of the National Institute of Business Management for the year under review with the actual income and expenditure , it was observed that the operating income had decreased by Rs.25.67 million or 3 per cent . As the development expenditure , donations and bonus had been incurred in excess of the annual estimated expenditure by 176 per cent, 140 per cent and 83 per cent respectively, the budget had not been made use of as an effective instrument of management control.

6. **Systems and Controls**

The weaknesses 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.

- (a) Conduct of Courses
- (b) Assets Management