

National Institute of Education - 2014

The audit of financial statements of the National Institute of Education for the year ended 31 December 2014 comprising the financial statement of position 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 in terms of Section 14(2)(c) of the Finance Act appear in this report.

1:2 Management’s Responsibility for Financial Statements

The 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 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 risks 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 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.

1:4 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

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 Education as at 31 December 2014 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

- (a) The cash flow statement should be prepared so as to depict the inflow and out flow of cash in terms of Sri Lanka Public Sector Accounting Standard No.02. However, the value of a motor vehicle amounting to Rs.8,500,000 received by the Institute under government grant as a non-financial asset had been treated as cash inflow.
- (b) The stock should be valued at cost or net realizable value, whichever is less, as per Sections 15 of the Sri Lanka Public Sector Accounting Standards – 09. However, the profit margin of Rs.3,537,939 had been included in the stock of publications of Rs.21,227,878 available for sale at the Institute. As a result, the stock had been overstated by a similar amount.

2.2.2 Accounting Policies

The profit or loss, derived from sale of fixed assets should be adjusted profit for the year. However, the Institute had adjusted the profit and loss derived from disposal of fixed assets during the previous years to the Disposal Profit Fund. As a result, its balance had become Rs.3,640,844 by 31 December of the year under review.

2.2.3 Accounting Deficiencies

The cost of goods amounting to Rs.31,569,002 for which orders had only been issued by 31 December of the year under review had been accounted under accrued expenses and stock in transit.

2.2.4 Unreconciled Control Accounts

A difference of Rs.5,390,441 was observed while reconciling the balances of 4 fixed assets account included in the statement of financial position with the related schedule.

2.3 Accounts Receivable and Payable

Five loan balances existed over 6 years amounting to Rs.3,747,754 had been included in the debtors' balances of the Institute. Adequate provision for doubtful debts had not been made in this connection.

2.4 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	Non-compliance
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(a) Financial Regulation 371 of the Democratic Socialist Republic of Sri Lanka	(i) Ad hoc imprests should be settled immediately after completion of the said purpose. However, settlement of ad hoc imprests aggregating Rs.649,150 granted to 17 officers of the National Institute of Education had been delayed by 01 to 10 months. (ii) Obtainable ad hoc imprests is limited to Rs.20,000. However, the Institute had granted ad hoc imprests exceeding the limit without the approval of the Treasury. While granting ad hoc imprests, advances aggregating Rs.1,178,750 had been granted based on an over estimation of 50 to 100 per cent.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka	

(i) Chapter iv Section 3.3	A casual officer should not be recruited for a vacant post until the vacancy is filled on a permanent basis whenever there is as vacancy in the permanent cadre. However, 28 officers who had been recruited on piece rate and contract basis for the vacancies in the Institute in contravention and without proper approval of the Board of Council had been made permanent with effect from 2013.
(ii) Chapter iv Section 3.3	A person without experience in service as required by the scheme of recruitment had been recruited on training basis on 21 February 2012 and had been appointed as Administrative officer of the Institute from 07 December 2013 subsequently. A newspaper advertisement for permanent recruitment for the

post had been published on 2 September 2014 after an elapse of 9 months. Although applications had been received from applicants with higher qualifications for the post, the Institute had neglected proper recruitment for the post.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results from the operations of the Institute as at end of the year under review was a surplus of Rs.59,317,999 as compared with the corresponding surplus of Rs.36,496,150 for the preceding year. Accordingly, a favourable position of Rs.22,821,849 had been depicted and this variance was mainly due to the increase in local deposits income by Rs.117,128,348.

3.2 Legal Matters commenced by/ Against the Institute

The following observations are made.

- (a) The Institute had filed 6 cases in court houses against officers who had gone abroad for academic activities and subsequently violated their agreements claiming compensation amounting to Rs.12,215,387. Of these, verdict had been given with reference to one case where it was ordered to pay Rs.876,236 in 60 instalments of Rs.14,604 each.
- (b) Four persons who had been dismissed from service for non-disciplinary behaviour had filed 4 cases in court houses against the Institute to obtain Training Certificates.

4. Operating Review

4.1 Management Inefficiencies

The following matters were observed.

- (a) Action had not been taken to properly acquire the ownership of the 7.0958 hectare of Thenekelewatta land valued at Rs.78,600,000 belonging to the government where the National Institute of Education is situated and the Baduwatta (Kahatahena) land valued at Rs.65,000,000 where the Teacher Training Centre is situated.
- (b) Although 7 years had elapsed since the payment of consultancy fees of Rs.1,200,949 to a consultancy firm as per agreement entered into for preparation of an estimate for construction of a sewage system, the construction activities had not started. A request had been made to the Department of National Budget to write off this payment from the accounts.

4.2 Operating Inefficiencies

The following observations are made.

- (a) During the year 2013, 124,000 books had been printed as evaluating equipment for teachers to facilitate school syllabuses of grade 6 to grad 10 under the Asian Development Bank Aid. However, action had not been taken to distribute 81,416 books relating to 27 subjects valued at Rs.5,873,491 among the teachers up audited date of 15 December 2014.
- (b) 43,979 teacher guidelines relating to 18 subjects for grade 6 had been printed in October 2009 and of these 36,308 teacher guidelines valued at Rs.6,591,677 representing 82 per cent remained at the stores for 4 years without being taken action to distribute them among teachers or selling them. The syllabuses for grade 6 had been revised in 2015 and it was observed in audit that these books were not being used.
- (c) 400 lecture hall chairs had been purchased by spending Rs.2,195,200 in September of the year under review as direct procurement stating it as urgent requirement. Also the purchase had been made by obtaining verbal instructions of the Director General based on the necessity of the Institute and without a prior request. Although these had been distributed to various divisions, they had not been properly made use of.

4.3 Transactions of Contentious Nature

The Transforming the school Education System as a knowledge Hub Project (TESP) funds had been spent for the following purposes contrary to the its objectives.

- (a) A sum of Rs.1,315,130 had been incurred in September of the year under review for purchasing of 8,000 degree certificates containers relating for the degrees conducted by charges fees.
- (b) A sum of Rs.703,800 had been incurred for purchasing of 1,000 pen drives in December of the year under review for distribution of them to the training programmes of principals.

4.4 Under Utilization of Funds

A sum of Rs.8,750,000 had been allocated for Research and Development activities in the year 2011. However, the money had not been used for any research activity upto 31 March 2015.

4.5 Identified Losses

In order to issue a general certificate to the all examinations conducted by the National Institute of Education 1,450 erroneous certificates had been printed based on the approval given by a Director of the Institute the specimen certificates were correct, as per the order given to the printing press. A sum of Rs.85,112 has been incurred for the printing.

4.6 Staff Administration

The approved cadre of the Institute was 652 and the actual cadre was 462 as at 31 December 2014 thus resulting in 190 vacancies. Action had not been taken to get approval for number of officers required for each department.

5. Accountability and Good Governance

5.1 Budgetary Control

The revised budget of the Institute had been furnished for audit on 8 May 2015 subject to the approval of the Director General after a lapse of 4 months of closure of the financial year. A comparison of the revised expenditure with the actual expenditure showed the variances ranging from 24 to 101 per cent and therefore, it was observed that the budget had not been made use as an effective instrument of management control.

5.2 Unsettled Audit Paragraphs

During the course of audit sample checks, it was revealed that while doing the conversion of salaries of others except the executive grades of the Institute in terms of 30(i) and 30(ii) of the Management Services circular of 01 June 2009, a sum of Rs.1,209,220 had been overpaid to 29 officers for the period 01 January 2009 to 30 April 2014 and based on this a sum of Rs.156,684 had been remitted to the Employees' Provident Fund. Although this had been pointed out in the previous year's report, action had not been taken to rectify it even by 22 June 2015.

6. System and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director General from time to time. Special attention is needed in respect of the following areas of control.

- (a) Personnel Management
- (b) Distribution of Educational Publications
- (c) Assets Management
- (d) Accounting
- (e) Procurement Procedure
- (f) Stock Control