

National Institute of Education - 2015

The audit of financial statements of the National Institute of Education for the year ended 31 December 2015 comprising the Statement of Financial Position as at 31 December 2015 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 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 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.

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

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 2015 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

In terms of Sri Lanka Public Sector Accounting Standard 02, investments comprising cash in hand and Short Term Treasury Bills should be taken into consideration when computing cash and cash equivalents in the preparation of cash flow statement. Nevertheless, short term deposits amounting to Rs.321,948,287 had not been considered as cash and cash equivalents in the preparation of cash flow statement.

2.2.2 Accounting Policies

Even though the profit or loss generated from the sale of fixed assets should be adjusted to the profit of the year, the Institute had adjusted the profits and losses generated from the disposal of fixed assets in the preceding years through a Fund called "Disposal Profit Fund" and the balance thereof by the year under review had been Rs.3, 640,844.

2.2.3 Accounting Deficiencies

Two vehicles valued at Rs.4,000,000 not belonging to the Institute and owned by a project of the United Nations Development Programme had been brought to account since the year 2014 as assets of the Institute and provision for depreciation amounting to Rs.213,909 had been made for the year under review. Nevertheless, it had not been disclosed in the financial statements.

2.2.4 Unexplained Differences

In the physical verification conducted on compact disk on 14 January 2016, there were 6263 compact disks valued at Rs.1,252,600 relating to 44 subjects in the stores and when comparing that balance with the balance appearing in the stock registers as at 31 December of the year under review, a shortage of 2060 compact disks valued at Rs.412,000 was observed.

2.3 Accounts Receivable and Payable

The following observations are made

- (a) Without being taken action to recover a sum of Rs.3,237,800 due from the Ministry of Education in respect of printing question papers on school based evaluations, it had been shown as a receivable balance since the year 2008.
- (b) The payable expenditure totalling Rs. 3,306,017 included a sum totalling Rs.1,397,421 relating to a period from 2 years to 5 years and a sum of Rs.391,613 exceeded 05 years, whereas action had not been taken to settle them.

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

 The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Public Finance Circular No.03/2014 (1) of 10 March 2015.	Having issued an Internal Control Circular No.452 (1) of 02 July 2015 while misinterpreting the Public Finance Circular relating to the maximum telephone limit to the officers entitled for communication facilities, a sum of Rs.91,000 had been over paid to the relevant officers.
(b) Paragraphs 9.7 and 9.8 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.	A sum totalling Rs.1,663,200 at U\$D 150 monthly allowance per each officer had been paid to the 06 officers who were following the Ph.D. course at the Colombo Study Centre from November 2014 to December 2015 without the approval of the Secretary to the Treasury.
(c) Section 8.9.1 (b) of the Government Procurement Guidelines,2006	Even though agreements should be signed in respect of the procurements exceeding Rs.500,000 in value, fixed assets totalling Rs.29,788,288 had been purchased in 12 instances without doing so.
(d) Paragraph 9.3.1 (b) of the Supplementary to the Procurement Manual dated 06 September 2010.	In repairing motor vehicles and equipment, prior approval of the Secretary to the Line Ministry should be obtained in respect of the expenditure exceeding Rs.200,000, whereas the approval had not been so taken in respect of the repair expenditure totalling Rs.870,106 incurred in 3 instances during the year under review.

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.157,631,150 for the year ended 31 December 2015 as compared with the corresponding surplus of Rs.59,870,748 for the preceding year, thus indicating an improvement of Rs.97,760,402 in the financial results as compared with the preceding year. Although expenditure of the Institute had increased by Rs.51,914,694 in the year 2015, increase in the income by Rs.149,675,095 had attributed to the increase in the financial results.

3.2 Contribution

In analyzing the financial results of the year under review and four preceding years, although financial surplus had decreased by 64 per cent in the year 2012 as compared with the year 2011, decrease in the contribution was 7 per cent only. The financial results had ceaselessly increased from the year 2012 to the year 2015 and after adjusting the employees' remunerations and depreciation on non-current assets, the overall contribution of the Institute had increased by Rs.318,104,459, Rs.336,995,276 and Rs.500,421,340 from the year 2013 up to the year 2015 respectively. Accordingly, contribution had increased by 57 per cent by the year 2015 as compared with the year 2013.

3.3 Analytical Financial Review

According to the Statement of Financial Position presented, the current ratio of the Institute in the years 2015 and 2014 was 5.4:1 and 3.3:1 respectively. Similarly, the quick ratio was 5.2:1 and 2.8:1. Eighty six per cent of the current assets represented Treasury Bonds and the balances of the bank current accounts and a large number of assets of the Institute had tied up with liquid assets. Two out of the 6 bank accounts of the Institute had balances of Rs.96 million and Rs.88 million as at 31 December 2015 and maintaining cash balances exceeding the requirements and making short term investments had attributed to the increase in the current and quick assets ratios.

3.4 Legal Events Initiated Against or by the Institute

The following observations are made

- (a) The Institute had filed 06 court cases claiming compensation totalling Rs.11,651,636 in respect of breaching agreements by 06 officers proceeded abroad for studies and according to the decision of one case out of the above cases, it had been decided to settle a sum of Rs.876,236 in 60 installments at Rs.14,604 per instalment.
- (b) Four court cases had been filed in connection with the dismissal of four persons from service on the ground of committing a cash fraud and obtaining teacher training certificates. Out of the above cases, the officers relating to two cases had been paid arrears of salary amounting to Rs.1,336,075 and they had been reinstated.

4. Operating Review

4.1 Performance

The following matters were observed in the examination of the Action Plan and the progress thereof of the National Institute of Education aimed at the objective such as development and promotion of education in Sri Lanka, post graduate education relating to various education streams, studying the performance and education methods of the education system, commencement of modernization process of the education system and improvement of the professional competency of the academic staff.

- (a) Although it had been targeted to train 600 resource persons on the Grade 1 teachers' guidance through the batches of provincial resource persons , only 477 resource persons had been trained by 08 programmes.
- (b) Even though carrying out studies on the specifications of pre-childhood development (age of 07 years), analyzing data reports and informing their results should have been done, only data analyzing had been done.
- (c) Research proposals of the 2014/2015 batch of the Diploma in Teaching English as the Second Language had not been approved under 05 topics and 16 projects required to be evaluated of the 2015/2016 batch had not been so evaluated.
- (d) Although 03 education research journals should have been published, it had not been so done.

4.2 Management Activities

The following observations are made

- (a) Adequate measures had not been taken to get the vehicle transferred owned by the Ministry and the vehicle donated by the UNISEF to the Institute.
- (b) A sum of Rs.24,593,922 had been paid as course fees for 10 officers including 04 officers for following post graduate degree for a period of 03 years comprising 02 years full pay leave and one year no pay leave in the University of Science and Management in Malaysia and 06 officers for carrying out studies in the Colombo Education Centre. The officers who studied in Colombo Education Centre had reported to the Institute for service for few days and as per the attendants registers of the Colombo Education Centre, they had not attended the course from January to March 2015. Nevertheless, without being attended the relevant education activities or properly reported to the service, these 10 officers had drawn salaries amounting to Rs.2,818,890 from November 2014 to March 2015.
- (c) In terms of the agreement entered into between the Ministry of Education, United Nations Educational Scientific and Cultural Organization (UNESCO) and the Sri Lankan Government on September 2012, the Ministry of Education and the National

Institute of Education were the executing institutions. In terms of Section 8 of the Agreement, UNESCO had agreed to provide technical assistance including expertise knowledge in each field. In terms of Section 15 of the agreement, the period of agreement was 06 years. Nevertheless, despite the lapse of 03 years, functions of the Asian Teachers' Training Centre had not been commenced and the technical assistance of the UNESCO had also not been obtained.

- (d) The land, 7.0958 hectares in extent valued at Rs.78,600,000 vested by the Letter No.2/ ඉඩම/බප 01/1416/97 dated 13 August 2001 of the Secretary to the Ministry of Education and the Baduwatta land valued at Rs.65,000,000 had been recognized as assets of the Institute without being taken action to take over the ownership of those lands properly.
- (e) In order to construct a lavatory system for the three storied hostel , an estimate amounting to Rs.27,848,100 had been prepared in the year 2008 and having been entered into agreement with a consultancy firm for the preparation of plans and estimates on 14 March 2008, a sum of Rs.1,200,949 or 5 per cent of the contract value had been paid as consultancy fees. Nevertheless, constructions had not been commenced even by 30 June 2016 despite the lapse of 8 years.

4.3 Transactions of Contentious Nature

Deviating from the procurement procedure, having been entered into an agreement with an individual, that was not a Government Institution, for the preliminary activities of the preparation of Students' Information System and for the completion of its development activities within a period of two years from 25 June 2013, a sum of Rs.140,000 had been paid in July 2013. Nevertheless, this Information System had not been developed even by the end of the year under review in accordance with the agreement.

4.4 Underutilization of Funds

Although a sum of Rs.8,750,000 had been allocated for research and development activities in the year 2011, no research activity whatsoever had been carried out by utilizing this fund even by 31 March 2015.

4.5 Idle and Under Utilized Assets

The following observations are made

- (a) Since action had not been taken to procure teachers' hostel facilities, functions of the teachers' training centre constructed at a cost of Rs.85,794,089 and the expiry of nearly one year from the completion, had not been commenced and office equipment valued at Rs.4,814,318 had not been utilized and their warranty period as well had expired.
- (b) It was observed that as books had not been printed according to a proper plan, 48,160 books valued at Rs.5,069,146 relating to 90 subjects had retained in the stores over a long period without being sold up to 30 June 2016, the date of audit.

4.6 Contract Process

Although the South Asian Teachers Training Building, the construction cost of which was Rs.93,975,432 had been handed over to the Institute on 17 March 2015, a large number of defects such as cracks on the walls in various places, detachment of windows, doors and tiles, cracks on concrete columns and percolation of water into the building were observed at the physical verification carried out by the audit and the strength of the construction could not be satisfied in audit.

4.7 Personnel Administration

The following observations are made

- (a) According to the Department of Management Services Letter No.DMS/B1/37/3/Vol III dated 22 December 2011, the approved cadre stood at 652 and the actual cadre stood at 455. Accordingly, the number of vacancies as at 31 December of the year under review was 197. Those vacancies included 119 posts belonged to the top management, of which 100 posts were lecturers and 13 were duty covering posts. Accordingly, it was observed that the capability of properly fulfilling the responsibilities assigned to the Institute including curriculum development, in the process of providing qualitative education to the nation's children was questionable.
- (b) In order to fill 95 vacancies, newspaper advertisement had been published on 3 occasions incurring a sum of Rs.267,731 during the year under review, whereas the Institute had failed to fill at least a single vacancy during the year under review.
- (c) According to the organization chart of the Institute, although there were 5 posts of Deputy Director General, three of which had remained vacant. Without being taken action to fill those vacancies even in the year under review, temporary officers had been appointed on secondary and attachment basis.
- (d) Five Acting Directors had been appointed and allowances of Rs.154,120 had been paid as at 31 December 2015. Further, acting appointments had been made for 8 heads of departments.
- (e) Officers had been recruited on casual and contract basis for two posts of Assistant Lecturer on 01 June 2011 and 01 December 2013 respectively and salaries and allowances totalling Rs.3,181,505 had been paid up to 31 December of the year under review.
- (f) An officer had been employed on acting basis for a monthly acting payment of Rs.9,632 for acting in a post of Director (Printing) with effect from 29 October 2015 outside the approved cadre.

5. Accountability and Good Governance

5.1 Budgetary Control

Variances ranging from 24 per cent to 1647 per cent were observed between the budgeted expenditure and actual expenditure during the year under review, thus indicating that the Budget had not been made use of as an effective instrument of management control.

5.2 Unresolved Audit Paragraphs

Although it had been pointed out by the previous year report that in converting salaries of the officers other than the Staff Grade officers of the Institute according to the Management Services Circular No.30 (I) and (II) dated 01 June 2009, over payment of salaries amounting to Rs.1,209,220 had been made to 29 officers from 01 January 2009 to 30 April 2014 and employees provident fund amounting to Rs.156,684 had been remitted thereupon, action had not been taken to correct it as yet.

5.3 Systems and Control

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

Area of Systems and Controls	Observations
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(a) Personnel Administration	Failure to fill vacancies, payment of acting salaries over a long period.
(b) Foreign and Local Trainings	Failure to select officers on a formal basis, payment of allowances without approval.
(c) Vehicle Control	Failure to transfer vehicles.
(d) Contract and Procurement Process	Failure to comply with the relevant laws and rules.
(e) Stock Control	Failure to take action on obsolete and non-moving stocks and failure to update books and records.
(f) Fixed Assets	Failure to take over lands and vehicles belonging to the Institute properly and failure to use underutilized assets effectively.