

National Institute of Business Management - 2016

The audit of consolidated financial statements of the National Institute of Business Management and its Subsidiary for the year ended 31 December 2016 comprising the consolidated statement of financial position as at 31 December 2016 and the consolidated comprehensive income statement, 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 24 of the National Institute of Business Management Act, No.23 of 1976 as amended by the National Institute of Business Management (Amendment) Act, No.28 of 1991. I was assisted by a firm of Chartered Accountants in public practice to carry out the audit of the accounts of the Subsidiary. 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

The 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. Subsections (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.

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 2016 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 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Sri Lanka Accounting Standard – 01

- (a) Instead of showing the change in the total equity, only the change in the retained profit had been shown in the statement of changes in equity presented along with the consolidated financial statements.

- (b) The loan installment amounting to Rs.15 million payable on 20 December 2017 by the National School of Business Management Ltd. to a state bank had been shown under non-current liabilities instead of showing under current liabilities.

2.2.2 Unexplained Differences

According to the registers of the Department of Inland Revenue, Pay As You Earn (PAYE) Tax and fees on economic services amounting to Rs.2,540,039 and penalty for delays amounting to Rs.2,626,032 had been shown as receivable from the National Institute of Business Management. However, according to the financial statements of the Institute, such a payable balance was not observed.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The remaining sum of Rs.30,124 out of the advances paid for the building in which the Jaffna Branch, had been operated, which was closed down on 22 June 2012 had not been recovered even by 31 December 2016.

- (b) According to the Debtors Age Analysis, course fees recoverable from students amounting to Rs.409,405 for over a period of 2 years as at 31 December 2016, had not been recovered.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Section 02 of National Institute of Business Management (Amendment) Act, No. 02 of 2014	One member of the Board of Governors which consists of 11 members had not attended any of the 12 meetings of the Board of Governors held in the year under review.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 571	Action had not been taken to settle or take to the income contract retention deposits totalling Rs.1,047,618 for over 05 years relating to 04 contracts of the National Institute of Business Management.
(c) Vocational Qualifications Circular No.1/2013 dated 26 February 2013 of the Tertiary and Vocational Education Commission	All courses conducted by institutions should be accredited by the Tertiary and Vocational Education Commission as specified in the circular for obtaining National Vocational Qualification Level (NVQ Level). However, only registration had been done from 07 July 2015 to 08 July 2017 for 09 Management and Computer courses conducted by the National Institute of Business Management. According to the Chairman's reply, applications had been handed over to the Tertiary and Vocational Education Commission on 14 October 2016 for obtaining the National Vocational Qualification Level (NVQ Level) for 09 courses. However, it had been mentioned that the National Vocational Qualification Level (NVQ Level) had been awarded only to 02 applications on 22 August 2017.

3. Financial Review

3.1 Financial Results

Group

According to the consolidated financial statements presented, the financial result of the Group for the year ended 31 December 2016 had been a net profit of Rs.131,086,096 as compared with the corresponding net profit of Rs.627,678,749 for the preceding year, thus indicating a deterioration of Rs.496,592,653 in the financial result for the year under review. The income of the Group had decreased by Rs.68,023,915 in the year under review and the increase in direct expenditure, operations and other expenditure and financial expenditure by Rs.186,907,075, Rs.177,809,872 and Rs.84,640,203 respectively had been the main reason for this deterioration.

Institute

According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2016 had been a net profit of Rs.108,935,764 as compared with the corresponding net profit of Rs.164,200,400 for the preceding year, thus indicating a deterioration of Rs.55,264,636 in the financial result for the year under review. Even though the income from dividends had increased by Rs.25,309,711 in the year under review, the decrease in income from operations by Rs.8,380,025 and the increase in salaries and allowances and expenditure on operations by Rs.40,200,244 and Rs.20,594,210 respectively had mainly contributed to the deterioration of this financial result.

Contribution of the Institute

The analysis of financial results of the National Institute of Business Management of the year under review and 4 preceding years revealed that the net profit of Rs.217,785,460 in the year 2012 had increased up to Rs.250,164,789 only in the year 2013 and it had deteriorated up to Rs.108,935,764 in the year 2016. After adjusting employees' gratuity and depreciation for non-current assets and Government tax to the financial result, the contribution of the National Institute of Business Management from the year 2012 up to the year 2016 had been Rs.434,322,775, Rs.484,985,199, Rs.483,742,056, Rs.518,947,843 and Rs.517,956,027 respectively.

4. Operating Review

4.1 Performance

The following observations are made in respect of the performance of the National Institute of Business Management with the main objectives of providing for business management education and training and their promotion, providing management consultancy and facilitating improvement of productivity.

- (a) The number of students that participated for courses in the year under review had decreased by 732 as compared with the preceding year representing 7.0 per cent.
- (b) The number of courses conducted by the Institute in the year under review had decreased from 281 to 278 as compared with the preceding year and the number of students that participated as well had decreased from 10,401 to 9,669. The number of students that participated for courses at the other centres including the Head Quarters except in Kandy Centre had decreased in this manner.
- (c) Even though the income from courses had decreased by Rs.8,380,085 representing 1.2 per cent in the year under review as compared with the preceding year, direct expenditure had increased by Rs.59,435,093 representing 21 per cent.

4.2 Management Activities

Action had not been taken to obtain title deeds even by 30 June 2017 for the land on which the Head Office and the Colombo Education Centre is located for which approval had been given to vest in the Institute as an exempted Grant, at the meeting of the Cabinet of Ministers held on 17 October 2013 and for the land of 0.345 hectares in extent on which the education centre operated in the city of Galle is located, for which approval had been given for vesting, at the meeting of the Cabinet of Ministers held on 07 November 2007.

4.3 Procurement Process

According to Section 2.8.1 (a) of Supplementary 27 of the Procurement Guidelines, a member of the Procurement Committee should not serve in both the said Committee and the Technical Evaluation Committee. Nevertheless, the Acting Director General of the Institute had served as the Chairman of the Technical Evaluation Committee relating to the purpose of renting buildings of the Institute as well, while being appointed as the Chairman of the Procurement Committee for the year 2017.

4.4 Staff Administration

The approved cadre as at the end of the year under review stood at 222 while the actual cadre stood at 180. As such, there had been 42 vacancies. These vacancies comprised of 03 posts of Divisional Head and 1 post of Senior Instructor and 12 posts of Lecturer.

The following observations are made in this connection.

- (a) According to the Scheme of Recruitment, the staff should be recruited by publishing public notices and newspaper advertisements. However, 12 officers comprising one officer as Assistant Director (Finance), 2 Karyala Karya Sahayakas, 07 Management Assistants, a Programme Coordinator and a Management Trainee had been recruited on contract basis during the year under review. The files relating to those recruitments had not been presented to Audit.
- (b) According to the Scheme of Recruitment of the Institute, an officer who had not fulfilled the qualifications required for the relevant post, had been recruited to the post of Programme Coordinator on 16 May 2016.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the draft Annual Report along with the financial statements should be presented to the Auditor General within 60 days of the closure of the financial year. However, The National Institute of Business Management had delayed the presentation of draft consolidated financial statements for the year ended 31 December 2016 until 06 July 2017.

5.2 Corporate Plan

The Corporate Plan prepared for the period from 2012-2016 had not been updated during the five preceding years while the following objectives included in the Plan had not been achieved as well.

- (a) Increasing the net profit by 20 per cent in relation to the preceding year
- (b) Increasing the annual income by 10 per cent
- (c) Construction of Distance Learning Centres in the North Eastern Provinces.

5.3 Budgetary Control

Variances ranging from 37 per cent to 255 per cent were observed relating to 18 items of expenditure between the estimated expenditure and the actual expenditure of the National Institute of Business Management, for the year 2016 thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies 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.

Areas of Systems and Controls

Observations

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| (a) Assets Management | Failure in obtaining title deeds for assets vested. |
| (b) Recruitment of officers | Failure in taking action in the recruitment of officers in accordance with the approved Scheme of Recruitment. |
| (c) Budgetary Control | Incurring of expenses exceeding the estimates. |