National Institute of Business Management and its Subsidiary – 2017

The audit of consolidated financial statements of the National Institute of Business Management and its Subsidiary for the year ended 31 December 2017 comprising the consolidated statement of financial position as at 31 December 2017 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 National Institute of Business Management Act, No.23 of 1976 and Section 24 of the National Institute of Business Management (Amendment) Act, No.28 of 1991. 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 judgments, 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 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 and 2.3 of this report.

2. Financial Statements

2.1 Qualified Opinion – Group

In my opinion, except for the effects of the matters described in paragraphs 2.2 and 2.3 of this report, 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 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Qualified Opinion – Institute

In my opinion, except for the effects of the matters described in Paragraph 2.3 of this report, the financial statements give a true and fair view of the financial position of the National Institute of Business Management as at 31 December 2017 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 – Group

2.2.1 Accounting Deficiencies

Even though, the land where the National Institute of Business Management Company is located had been leased out from the Urban Development Authority for 30 years in the year 2012 by paying Rs. 112,000,000 subject to the Government Chief Valuer's valuation, and had not been entered into a contract as at end of the year under review. Further, the amortization had not been done according to the Statement of Alternative Treatment (SOAT) approved by the Chartered Accountants of Sri Lanka. However the useful life of the buildings in this land had been treated for depreciation as 50 years even though the lease period of the land is 30 years.

2.3 Comments on Financial Statements – Institute

2.3.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard– 12

The Differed tax liability of Rs. 3,948,217 relating to the surplus of Rs. 59,482,172 which has been occurred from assets revaluation, had been adjusted to the income tax expenditure instead of shown under the other comprehensive income.

(b) Sri Lanka Accounting Standard -16
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(i) Even though, the building constructed in the land located in Galle city by incurring a sum of Rs.311,169,872 had been taken in to accounts, the value of that land had not been assessed and accounted.

(ii) Since useful life of non-current assets had not been reviewed annually in terms of paragraph 51 of the standard,63 items of fixed assets had still been in use despite been fully depreciated. Accordingly, action had not been taken to rectify the estimated error in terms of Sri Lanka Accounting Standard 08.

(iii) Action had not been taken to revalue and account or dispose the library books costing Rs. 1,066,499 which had been fully depreciated as at the year under review.

2.3.2 Accounting Deficiencies

The following observations are made.

(a) The total of Rs.30,526,463 had been spent on additional constructions and internal partitions for the building which had been leased out for a period of 2 1/2 years to conduct the courses and that had been depreciated by treating the depreciation period as 50 years instead of 2 1/2 years. Further, the final payment for the additional constructions of the aforesaid building had been accounted as Rs. 4,768,338 while the actual payment incurred in 2018 was Rs. 3,145,110. Therefore, creditors and asset accounts had been over stated by Rs. 1,623,228.

(b) Due to the further depreciation of 23 items of assets which had been fully depreciated at the beginning of the year under review, value of the depreciation and the net value of those assets for the year under review had been overstated and understated by Rs. 107,519 respectively.

(c) Provision for income tax relating to the year 2017/2018 had been understated by Rs. 2,255,145 due to the following deficiencies.

(i) Even though the depreciation allowance of Rs. 110,987,164 had been adjusted in to net profit in computing the taxable profit, Rs. 93,687,701 had been considered as depreciation adjustment in computing the capital allowance. Therefore, provision for income tax had been understated by Rs. 1,729,946.

(ii) Even though, in terms of the Section 26 of the Inland Revenue Act No. 10 of 2006 states that the foreign travelling expenses which is 2 per cent of the adjusted profit or Rs. 5,251,990 shall be deductible, due to the ignorance of that rule taxable profit and provision for income tax has been understated by Rs. 251,990 and Rs.525,199.

(d) Income of Rs. 3,891,859 which had been collected from students for the Diploma Convercation included in the financial statements as at 31 December 2017, had not been considered in calculating the payment of Nations Building Tax and Economic Service Charges.

2.3.3 Unexplained Differences

Even though the lease rent expenditure recorded in financial statements for the year 2017 was Rs. 45,726,680, according to the calculation made by the audit was Rs. 44,600,875. Hence, there was observed a difference of Rs. 1,125,805.

2.4 Accounts Receivable and Payable

The following observations are made.

(a) According to the debtors age analysis, course fees recoverable from students amounting to Rs. 139,105 and Rs. 2,021,700 had been recoverable from over a period of 2 years and 3 years respectively as at 31 December 2017.

(b) The Debtor balance as at the end of the year under review (course fees receivable) was Rs.46,923,655 and the provision for bad debts was Rs. 12,915,205 or 27.5 per cent.

2.5 Non- Compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

Reference to Laws, Rules and Regulation etc.	**Non- Compliance**
(a) Public Finance Circular No.2015/03 of 14 July 2015.	Even though in terms of the circular, prior approval of the General Treasury should be obtained when exceeding the ad hoc advance limit of Rs. 100,000, an advances of Rs. 837,250 had been paid in 7 instances without the approval. Further it was observed that, out of the advances given during the year, over 50 per cent and over 90 per cent had been remained in 31 and 4 instances respectively.

(b)	Vocational Qualifications Circular No. 01/2013 of 26 February 2013 of the Tertiary and Vocational Educational Commission.	National Vocational Qualification (NVQ level) should be obtained for all vocational courses being held and accreditation from Tertiary and Vocational Education Commission should be obtained for that. However, it was observed that out of the 48 NVQ Level courses, only 02 had been accredited as at the audited date of 30 September 2018.
(c)	Paragraph 4.2.3 of Public Enterprises Circular No. PED/12 of 02 June 2003.	Even though the performance of the Subsidiary Company should be reviewed by the Board of Parent Company at least minimum of once in a six months, according to the Board Minutes, the audit evidences relating to such discussions had not revealed from the audit.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the net loss of the Group and net profit of the Institution for the year ended 31 December 2017 was Rs. 384,803,350 and Rs. 36,238,220 respectively. As compared with the net profit of the Group and the Institute of Rs.131,086,096 and Rs.108,935,764 respectively for the preceding year, thus indicating deteriorations in the financial results of the Group and the Institute of Rs.515,889,446 and Rs.72,697,544 respectively. The decrease in other income by Rs. 40,705,488 and increase in administration expenses by Rs. 73,022,707 had mainly attributed to the deterioration of the financial results of National Institute of Business Management.

In analyzing the financial results of the year under review and 04 preceding years, revealed that the net profit of Rs. 250,164,789 in the year 2013 had decreased up to Rs. 36,238,221 for the year ended 2017. However, after readjusting the employee remuneration, depreciation for the non-current assets and taxes paid to the government in to the financial results, even though the contribution of Rs. 484,985,199 of the institute in year 2013 had increased up to Rs. 517,956,027 in the year 2016, it had decreased to Rs. 421,420,933 in the year 2017.

4. Operating Review

4.1 Performance

4.1.1 Activity and Review

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

(a) Even though the number of courses conducted by the institute had increased from 278 to 315 during the year under review as compared with preceding year, the number of students which had been recruited had decreased from 9,669 to 9,293 by representing 3.9 per cent. Decrease in the number of students who has participated for the courses at the Colombo Education Centre from 5,795 to 5,153 by representing 11 per cent had mainly attributed to the above decrease.

(b) According to the Action Plan relating to the year under review, it had been planned to conduct 302 courses and recruit 9,853 students. But, even though 315 courses had been conducted in the year under review, only 9,293 students had been recruited. Moreover, the advertising expenditure for the preceding year was Rs. 62,311,433 and in the year 2017 it was Rs. 85,555,388 showing an increase by 37.3 per cent as compared with the preceding year. However, the growth in course fee revenue was 7 per cent and there was no revenue growth in course fee income compared with the publicity expenditure.

(c) The number of students who had participated for the courses has decreased by 719 in Colombo and Galle centers during the year under review compared with the preceding year.

(d) Even though 240 students who had registered for the courses in the previous year had dropped out, no information has revealed that the Institution had taken follow up action thereon.

(e) As at the audited date of 30 September 2018, 163 students had been registered for 8 courses of Degree and Foundation courses which were planned to conduct by the National Innovation Center, which was started on 20 October 2017.Thus, 13 number of those registered students has abundant their courses.

4.2. Management Activities

The legal ownership of the lands on which the Head Office and the Colombo Education Center was located had not been vested to the Institute even as at 31 October 2018 and as well the approval had been given to vest to the Institute as an Exceptional Grant at the meeting of the Cabinet of Ministers held on 17 October 2013. Further, the legal ownership of the land of 0.345 hectares in extent on which the Education Center was located in the Galle city had not been vested even though the approval had been given for vesting at the Cabinet of Ministers held on 07 November 2007.

However, the Director General had stated to the audit, “even though the relevant documents relating to the land on which the Head Office is located had been submitted to the Surveyor General’s office in Thimbirigasyaya, no action had been taken so far to issue the certificate and according to the agreement entered with the Sri Lanka Transport Board and Ministry of Civil Aviation, the institution had agreed to acquire the free hold ownership of the lands in city of Galle on which the education center is located, by paying Rs. 35 million to the Sri Lanka Transport Board”.

4.3 Staff Administration

The approved cadre and the actual cadre as at the end of the year under review stood at 219 and 164 respectively, thus indicated 55 vacancies. There were 2 posts of Divisional Heads, 26 posts of Senior Instructor and lecturers among these vacancies.

In replying to this , "as a policy of the institute, applicants those who have qualified at the time of the recruitment, has been recruited on contract basis and after evaluating their performance, action had been taken to recruit to the permanent staff and therefore only 24 vacancies stood".

The following observations are made in this regard.

(a) Even though an approval had been granted for 04 new posts through the Letters of DMS / 1674 / VII and DMS / 1674/2017 of the Department of Management Services on 06 September 2016 and 31 August 2017, those positions had not been included in the above mentioned statistics as well approval had not been obtained for relevant recruitment procedure.

(b) Contrary to the Section 6(b) 2 of Act No. 23 of 1976, the Chairman of the Institute had been appointed to cover the duties of the vacant Director General position since 31 October 2016.

(c) According to the scheme of recruitment dated 20 February 2013 and amended approval for the qualifications to that dated 30 November 2016, it had been stated that a person who has 5 years of service experience after completing doctorate or 20 years of service experience after completing post graduate should be recruited as Director General. However, contrary to that scheme, an internal officer in the institute without fulfilling the relevant service experience had been appointed to that position from 6 March 2017, based on recommendations in the Board Meeting held on 19 January 2017.

However, it was observed during the audit that even though the applications had been called through the newspaper advertisement for this post, the recruitment had been done based on the above decision without examining the qualifications and calling for interviews for the applicants.

The secretary to the Line Ministry had informed to the audit, "after considering this applicant is more suitable than the other applicants and due to the necessity of recruiting a person on urgent basis for this post for the continued existence and success of the Institute, appointment had been done by the Line Minister in accordance with the section 16(5) of the Act, on the recommendations of the Board of Directors"

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

In terms of the year 2030 "Agenda" of the United Nations for the achievement of Sustainable Development Goals, actions had not been taken by the National Institute of Business Management to identify the Sustainable Development Goals, targets and focal point to reach those targets and indicators of measuring achievement of those targets in respect of their functions.

6. Accountability and Good Governance

6.1 Procurement and Contract Administration

The following observations are made in connection with obtaining a suitable building for rent or lease basis for conducting educational programs.

(a) Even though, the procurement notice had been published in 2 news papers by spending Rs. 79,074 in 20 November 2016, most essential information such as duration of the building required, vehicle storage capacity, bids opening date, time and the way of participating for bidders etc had not been included with the notice.

(b) Even though, according to the Procurement Committee decision held on 01 February 2017, it has been decided to give a refundable deposit equivalent to 2 months rent to the owner of the building, by the agreement between two parties on 21 February 2017, had been agreed for deposit of 3 months rent of Rs. 7,500,000 and had been paid. Further, for the remaining 6 months at the end of 2 years, it had been agreed to increase and pay monthly rent by Rs. 250,000 without obtaining a decision from the Procurement Committee. Therefore, it was observed that they were act contrary to the decision of the Procurement and Technical Evaluation Committee when signing the agreements.

(c) The Contract for the internal partitions of the National Innovation Center building had been given to private institution for Rs. 15,896,031 on 01 September 2017 and the value of the Performance security submitted by the contractor was Rs. 294,803. However, according to the contract awarding letter it should have been 5 per cent of the contract value and even according to the section 5.4.8 of procurement guidelines it should not be less than 5 per cent, the value of the performance security was 1.85 per cent.

(d) The Chairman of the Institute had covered the duties of the post of Director General and had acted as Chairman of the Procurement Committee as well and, therefore appointing Directors and Assistant Directors under his direct supervision, as the Chairman of the Technical Evaluation Committee was contrary to the guideline 2.7 of the Government Procurement Guidelines in 2006. Moreover, 22 procurement decisions had been taken during that period and the financial value of those amounted to Rs. 178,252,928.

6.2 Budgetary Control

There were considerable variations from 29 per cent to 100 per cent between the budgeted and actual income and expenditure and that the budget had not been used as an effective instrument of the management control.

7. Systems and Controls

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

Areas of Systems and Controls	Observations
(a) Accounting,	Tax value had not been calculated accurately and accounted.
(b) Assets Management.	Action had not been taken to vesting of assets.
(c) Human Resource Management.	Failure to act in accordance with the approved recruitment scheme when recruiting staff.
(d) Budgetary Control.	Expenditure over estimates.
(e) Advance Control.	Due to granting advances over the limit and on non specific estimates, over 50 per cent had been remained out of advances given.