

**1. Opinion**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the National Institute of Social Development for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 in conjunction with provisions of the National Audit Act No.19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

#### **1.4 Scope of Audit**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute.
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements**

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Entities are required to “devise and maintain” a system of internal accounting controls, sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

### **1.5.2 Accounting Deficiencies**

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Due to understating the depreciation of Rs.542,879 on 9 motor vehicles revalued in the year under review, the profit of the year had been overstated whereas, as a result of accounting the depreciation of Rs.593,720 on buildings for the preceding year as depreciation	Action has been taken to rectify the error. It was informed that instructions have been given to the Accountant of the Institute to present the relevant corrections, along with the accounts of the year 2019.	Revaluation needs to be correctly accounted.

for the year under review without being brought to account in the previous year, the profit of the year had been understated. In addition, due to understating the accumulated depreciation of Rs.14,494,346 on 9 revalued vehicles, the revaluation profit had also been understated.

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| <p>(b) Even though, the expenditure of Rs.2,296,000 incurred on the information system commenced during the year under review by the Institute but the work of which was not completed, should have been brought to account as works-in-progress, it had been brought to accounts under rehabilitation expenses. Consequently, the recurrent expenditure of the year under review had been overstated and the year's surplus had been understated by that amount as well.</p> | <p>Action had been taken to rectify the error. It was stated that instructions have been given to the Accountant of the Institute to present the relevant corrections along with the accounts of the year 2019.</p> | <p>Accounts need to be correctly maintained.</p> |
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## 1.6 Accounts Receivable

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The following observation is made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
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<p>A sum of Rs.3,817,050 receivable from students involved in studies in 14 courses due to be completed within the year under review had not been recovered.</p>	<p>Action is taken to recover the money receivable from students expeditiously and it was informed that instructions have been given to the Finance Division and the Heads of academic Divisions to do this process efficiently.</p>	<p>Action need to be taken to recover the course fees within the specific dates and periods.</p>

## 2. Financial Review

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### 2.1 Financial Result

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The operating results for the year under review had been a surplus of Rs.10,362,427 as against the deficit of Rs.10,443,422 for the preceding year. Accordingly, an improvement of Rs.20,805,849 in the financial results was observed. Increase of revenue of the Institute had mainly attributed to this improvement.

## 3. Operating Review

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### 3.1 Under-utilization of Funds

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The following observation is made.

#### Audit Observation

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The Social Development, Policies, Research and Publication Division had estimated a sum of Rs.4,700,000 in the year for 09 programmes but only a sum of Rs.790,346 had been spent. Accordingly, the utilized amount for those programmes had been at a minimum level of about 16 per cent of the provision.

#### Comments of the Management

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Severe attention in this regard has been paid and it was stated that strict instructions have been given to relevant Heads of Divisions that they need to take responsibility not to recur such deficiencies in future.

#### Recommendations

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Provisions made for programmes in terms of plans need to be utilized in a manner that achieves the objective.

### 3.2 Weaknesses in Contract Administration

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The following observation is made.

#### Audit Observation

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Even though the repair works of Kelaniya Ladies Hostel Building has been awarded to a private contractor, a written agreement had not been entered into with the contractor. Furthermore, the recommendation of the Technical Evaluation Committee had not

#### Comments of the Management

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It was informed that the maximum limit of 20 per cent advance would be implemented for contracts in future and necessary action had been taken to sign a contract agreement for contracts.

#### Recommendations

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Corrective action needs to be taken in accordance with the contract procedure.

been obtained for the work estimate of Rs.573,497. Even though, a mobilisation advance of 20 per cent can be paid for this contract, an advance of Rs.206,459 or 40 per cent had been paid therefor. An advance bond had also not been obtained from the contractor therefor.

### 3.3 Human Resource Management

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Even though, the Post of Professor of the Institute was fallen vacant nearly for a period of 5 years from 2014 to 24 May 2019 the date of audit, the recruitment had delayed even by 30 May 2019.	(a), (b), (c) Due to administrative changes happened in the year 2018 recruitment could not be done for the post even up to 30.04.2019. Action had been initiated to do the recruitment by now.	As the primary objective of the Institute is to conduct courses continuously, expedite the recruitments of vacant posts in the academic and non-academic staff.
(b) Even though the Post of Director General of the National Institute of Social Development had fallen vacant since 05 January 2018, action had not been taken to recruit a permanent officer for the post even as at 30 June 2019.	Due to administration changes happened in the year 2018 recruitments for vacant posts could not be done up to 30.04.2019. Action had been initiated to do the recruitment by now.	In order to continue operation of the Institute, recruitments for the vacant posts need not be delayed.
(c) Vacancies of 15 posts related to academic functions including 2 posts of senior lecturer, 2 posts of senior training officers had existed even by 30 June 2019. As such it had encumbered for conducting training courses which is the main objective of the Institute.	Due to administration changes happened in the year 2018 recruitments for vacant posts could not be done up to 30.04.2019. Action had been initiated to do the recruitment by now.	In order to continue operation of the Institute, recruitments for the vacant posts need not be delayed.

#### 4. Accountability and Good Governance

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##### 4.1 Corporate Plan

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The following observation is made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
----- Even though, a corporate plan, containing the matters stated in paragraph 5.1.2 of Public Enterprises Circular No.PED/12 of 02 June 2003 needs to be prepared, a corporate plan had not been prepared for the year 2018 by the Institute.	----- A corporate plan for the period 2016-2020 has been prepared. The preparation of the corporate plan for the period 2019-2021 is at the final stage and it was informed that it would be completed soon and action would be taken to send a copy thereof to the National Audit Office.	----- The preparation of the Corporate plan containing the long term vision of the Institute is important for the achievement of objectives of the Institute. Therefore, action needs to be taken to prepare the Corporate Plan and review it annually.

##### 4.2 Budgetary Control

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The following observation is made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
----- Variances ranging from 27 per cent to 86 per cent were observed between the budgeted revenue and expenditure and the actual revenue and expenditure. Thus, the budget had not been made used as an effective instrument of management control.	----- It was informed that strict attention was paid in this issue and instructions have been given to incur expenditure with appropriate control.	----- The Institute needs to maintain a sound system in respect revenue and expenditure.