

National School of Business Management Limited – 2018

1.1 **Opinion**

The audit of the financial statements of the National School of Business Management Limited for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, 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 read in conjunction with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to the Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 **Basis for Opinion**

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

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

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 the 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 statements, management is responsible for assessing the Company'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 Company or to cease operations or has no realistic alternative but to do so.

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

As per sub section 16(1) of the National Audit Act No.19 of 2018, the Company 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 Company.

1.4 Auditors Responsibility for the Financial Statements

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 Company'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 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 Company'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 statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date my auditor's report. However, future events or conditions may cause the Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statement

1.5.1 Internal Control over the preparation of financial statements.

Entries 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.

2. Financial Review

2.1 Financial Result

The operating result for the year under review amounted to a deficit of Rs.634,175,486 and the corresponding deficit in the preceding year amounted to Rs.422,191,942. Therefore a deterioration amounting to of Rs.211,983,544 of the financial results was observed. The reasons for the deterioration is increase of direct expenses by Rs.42,596,792 and interest expenditure by Rs.176,623,456.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) The Company had purchased the land where Company is located for Rs.112,000,000 on the basis of lease hold from the Urban Development Authority in the year 2012. However a lease agreement in this regard had not been entered in to between the Company and UDA even to the date of 31 July 2019.	A sum of Rs.112 million had been paid for this land as an initial payment and as per the balance of Rs.44,480,891 had been paid on 08 March 2019. It was stated that actions will be taken to sign the agreement by the date of 31 May 2019 by the UDA.	Actions should be taken to sign the relevant lease agreement.
(b) Even though the scheme of Recruitment should be approved by the appropriate Ministry with the concurrence of the Department of Public Enterprises of General Treasury as per the paragraph 9.3.1 of the Department of Public Enterprises circular No. PED/12 dated 02 June 2003. The approval of the Ministry had not been taken to the scheme of Recruitment of the Company. Further, the age limit and the recruitment procedure for each position had not been included in the scheme of Recruitment which was prepared by the Company.	Only the approval of the Board of Directors is sufficient due to the fully self functioning financial institute without any Grant of Treasury.	Actions should be taken in accordance with the Department of Public Enterprises circular No. PED/12 dated 02 June 2003.

3.2 Defects in Contract Administration

Audit Observation -----	Comments on Management -----	Recommendation -----
(a) Even though in terms of the paragraph No.2.14.1 of the procurement guide line and annexure 33 dated 15 March 2017, a supplier should be selected following open competitive bidding method, value of Rs.32 million of furniture and equipments had been bought contrary to that by the Company and without full filling conditions of paragraph 3.3 of the procurement guide line a supplier had been selected following limited / restricted competitive method by dividing the relevant procurement into four parts without presenting reasonable reasons. Therefore the opportunities of the most lucrative purchases had been lost by following competitive bidding method.	Being expecting the whole Architecture including the interior will last for over the years, this project had been monitored by the consultant as a specialized university and it had been mentioned that he followed the limited/restricted bidding method and presented the quotations list.	At the beginning of the procurement procedure according to the nature of the Goods/Items and estimated values of the goods the method of procurement should be identified accurately in terms of procurement guide line and should be correctly implemented those methods suitably. Without following procurement guide lines is not suitable and should be followed accurately in next procurement procedure activities.

- (b) In terms of procurement guide line 5.4.8 (a) and (b) even though a performance guarantee should be valid till twenty eight (28) days beyond the intended date of supply of goods. The performance guarantee relevant to the agreement of establishment of management information system had been expired. Even though the contract had been finished due to the incompleteness of the contract according to the agreement, the loss had been occurred could not be recover in order to the expiration of the guarantee.
- It had been mentioned that performance guarantee had been taken.
- Relevant to the agreements made between two parties, actions should be taken or to be able to identify about the expiration of the performance guarantee when the controls established and before extension of time as relevant or convert the guarantee in to cash.