

National Institute of Business Management and its - 2020

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the National Institute of Business Management and its subsidiary for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity and the 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 and the Finance Act, No 38 of 1971. My comments and observations which I consider should be presented in Parliament, appear in this report.

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 2020 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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 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 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 Sub-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 Auditor's Responsibility for the Audit of 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, 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 Institutes' 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 statements 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.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a profit of Rs.133,064,137 as compared with the corresponding profit of Rs.53,150,556 for the preceding year, thus indicating an improvement of Rs.79,913,581 in the financial result. The increase in course income and decrease in administration expenses had been main attributed for the above improvement.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) According to the strategic plan prepared by the institute for the period 2020-2022, it was planned to invest a sum of Rs. 750 million for the purchase of land or buildings for the Colombo head office, Kandy and Matara branches and to invest a sum of Rs. 601 million for modernization and construction. However, those plans had not been implemented. Further, a cost of Rs. 276.8 million had been incurred by the institute as building rent of Colombo, Matara, and Kandy branches during the period of 5 years from the year 2017 to year 2021	Although arrangements have been made to purchase the buildings, it was difficult to make purchases due to various issues.	Necessary actions should be taken to expedite the purchase of buildings and reduce the cost of rent.
(b) The approval of the Cabinet was granted by the decision dated 08th January 2017 to release a land extended of 45 perches owned by the Hector Kobbekaduwa Agrarian	Action had not been taken by the Hector Kobbekaduwa Agrarian Research and Training	The recommendations of the COPE Committee dated 02 December 2021

Research and Training Institute to hand should be followed. belonging to the Ministry of over the relevant Agriculture adjacent to the main land to the National branch for the construction of a new Institute of Business building complex of the institute. Management. Although the market value of the land was valued at Rs. 271,000,000 by the Valuation Department on 11 August 2017, no action had been taken to acquire the relevant land even by 30 October 2021.

- (c) Even though the Cabinet approval was granted at the meeting held on 17 October 2013 to transfer the land to the institute where the head office and the Colombo Education Center are located as a free grant and the Cabinet approval was granted at the meeting held on 07 November 2007 to transfer the land extended of 0.345 hectare on which the Education Center was located in Galle, legal ownership had not been taken over to the institute even by 31 October 2021. Although an agreement had been reached in accordance with the agreement made in between the Sri Lanka Transport Board and the Ministry of Civil Aviation to acquire freehold rights of the land where the Education Center is located in Galle by paying Rs. 35 million to the Sri Lanka Transport Board, relevant works had not been completed even by 31 December 2021.
- Although the documents for obtaining the ownership have been handed over to the Thimbirigasyaya Land Commissioner's Office, no action had been taken to issue the title certificate. Due to the inability to confirm the ownership of the Galle land, the freehold ownership had not been received to the institute.
- According to the recommendations of the COPE Committee dated 02 December 2021, action should be taken to acquire those lands expeditiously.
- (d) To obtain National Vocational Qualification (NVQ) for the courses conducts in accordance with the Extraordinary Gazette Notification of the Democratic Socialist Republic of Sri Lanka dated 07 September 1995 and the Operating Handbook of the Tertiary and Vocational Education Commission of October 2009 and Vocational Qualification Circular No. 01/2013 dated 26th February 2013, should be accredited at the Tertiary and Vocational Education Commission. But only three courses Standards for accreditation under NVQ qualifications should be prepared. The relevant institute has set standards for a limited number of subjects. 47 courses have been submitted but accreditation has been delayed due to lack of standards. Immediate action should be taken to prepare the standards for the accreditation of courses.

conduct by the institute were accredited by the end of the year under review. Out of the courses requested for accreditation, 22 courses were not accredited and 47 courses to be accredited were available even by 02 December 2021.

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| <p>(v) The Department of Management Services has given approval by the Letter No. DMS / 1674/2017 dated 16 October 2018 to calculate and pay the incentive allowances at the rate of 5 percent of operating profit and 11 percent of revenue. In the calculation of incentives for the year under review, a total sum of Rs. 11,881,022 received from disposal of assets, differed income, and sundry income and the value of Covid relief packages amounted to Rs. 68,432,597 were also considered for incentive calculation which were not a measure of performance when calculating incentives. Also, employee loan interest and investment interest which were under other income from 2016 to 2019 amounted to Rs.98,186,661 were taken in calculation of incentive allowances.</p> | <p>Methodology mentioned in the letter DMS / 1674/2014 of the Department of Management Services will be followed.</p> | <p>As per the recommendations made by the COPE Committee that a proper explanation should be inquired again in this regard from the Department of Management Services due to the fact that the Management Services Department letter does not clearly define the items related to income and operating profit and relevant and non-relevant sources of income and operating profit have not been identified in the calculation of incentives.</p> |
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