

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 2022 comprising the statement of financial position as at 31 December 2022 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 Institute as at 31 December 2022 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

1.5 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
i. Financial Regulation 261 (3)	Although cheque writing or payments recording should not be made without sufficient funds in the cash book, due to not acting accordingly, a negative balance of Rs.4,834,607 was shown in the cash book as on 31 December of the year under review.	Action had been taken to provide sufficient funds in our banks to meet the payments and NIBM has not utilized its overdraft facility during the period under review. That NIBM maintains strict financial controls and takes necessary measures to comply with regulation 261 (3) in the financial activities.	Financial Regulations should be complied.
ii. Financial Regulation 756	Although all government institutions should conduct an annual board of survey, the institution had not conducted a board of survey for the year 2022.	That verification will be done during this year.	Financial Regulations should be complied.
(b) Section 2.2.5 of the Code of Guidelines of Public Enterprises Circular No. 01/2021 dated 16 November 2021, Section 7.7 of the Operations Manual and the letter of the Director General of the Public	It was informed that a policy framework including investment, financing, dividends and human resource policies of the National Business Management Institute, which is the subsidiary company of the institute, should be prepared and until such preparation, it is more appropriate for the parent institute to carry out the necessary activities to apply the Treasury circulars	As per Public Enterprises Business Circular 1/2021, the policy framework of the subsidiary company will be prepared.	Action should be taken as per referred circulars and guidelines.

Enterprises and guidelines, but had not
 Department been dealt with.
 addressed to the
 Auditor General
 dated
 19.04.2023

1.6 Financial Management

Audit Observation	Comments of the Management	Recommendation
(a) The amount of Rs.800 million was invested by the National Institute of Business Management in the National School of Business Management, but had not received any benefit since the year 2017.	The Vice-Chancellor of the National School of Business Management has informed us with a copy to the Secretary of the Line Ministry by letter dated 14.03.2022 that in the Solvency Test of the National School of Business Management, the institution is not at a level where it can pay dividends.	Efforts should be made to get adequate return on capital invested.
(b) In the Committee on Public Enterprises held on 02 December 2021, the committee gave an order to the Chief Accounting Officer to appoint an expert panel to monitor the behaviour and structure of these two institutions and come for a final decision regarding the non-payment of dividends by the National School of Business Management, but had not been dealt with.	No reply was made.	The orders of the Committee on Public Enterprises should be followed.

2 Financial Review

2.1 Financial Result

The operating result in the year under review had been a profit of Rs.248,837,523 as compared with the corresponding profit of Rs.837,737,921 for the preceding year, thus observing a deterioration of Rs.588,900,398 in the financial result. The increase in direct expenditure by Rs.275,808,886 and administration expenditure by Rs.428,417,999 had been the main reasons for the above deterioration.

2.2 Ratio Analysis

The group had earned a net profit margin of 17.29 percent in the previous year but it had declined to 4.36 percent in the year under review.

3 Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the institute had paid a sum of Rs.85 million in the years 2017 and 2018 for 02 lands located in Colombo and Galle where the buildings were built and the courses were conduct, the ownership of those lands had not been taken over even until 15 July 2023.	Regarding the land of the Galle Center is established, it has been agreed to clear the ownership of the land in the discussions held with the Galle Kadawat Satara Divisional Secretary, Land Commissioner General and the Sri Lanka Transport Board. Accordingly, the ownership of the land will be acquired by the National Business Management Institute in the next month, by September. Regarding the land where the head office of Colombo is located, it will be taken over in coordination with the Divisional Secretary of Thibirigasyaya.	Propmt action should be taken to acquire the ownership.
(b) Although the Committee on Public Enterprises held on 02 December 2021 reviewed the Auditor General's observations and advised that jointly prepare an acceptable method for calculating incentives with the department of management services, the work was not completed even until 15 July 2023.	The income used in the calculation of income tax by the Inland Revenue Department has been considered in the calculation of incentives and the incentives have been calculated according to the methodology approved by the Department of Management Services on the recommendation of the Public Enterprises Department.	The recommendations of the Committee on Public Enterprises should be followed.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
The approval of the parent company was not given for the financial and accounting operations manual in use, prepared in January 2016 and revised on 18 February 2021 for the control of the internal operations of the National School of Business Management.	As per the Articles of Association of the company, the Board of Directors of the company has full powers of approval. Also, the Board of Directors of the parent company also represents the Board of Directors of the company.	The approval of the parent company should be taken.