

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the National Institute of Education 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 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be report 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 2022, 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**

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**

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 Auditor’s Responsibilities 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 skepticism 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 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 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 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 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 Audit Observations on the preparation of Financial Statements

### 1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Audit Issue	Management Comment	Recommendation
(a) According to paragraph 09 of Sri Lanka Public Sector Accounting Standard 02, deposits maturing in less than three months should be shown under cash and cash equivalents, but short-term investments of Rs.141,229,813 had not been dealt with accordingly. Also, the cash flow statement should have been prepared based on the actual cash inflows and outflows during the year but it was not prepared accordingly.	Fixed deposits amount of Rs.141,229,813 due to mature in less than 03 months are shown as short-term investments under current assets. That it will be shown in cash and cash equivalents as per Standard No. 02 in the next accounting year.  It will be corrected separately in the accounts of the year 2023 according to Sri Lanka Public Sector Accounting Standard No. 02.	Financial statements must be prepared in accordance with Sri Lanka Public Sector Accounting Standards.
(b) Capital grants of Rs.50,000,000 received during the year under review had not been adjusted in the financial statements as per Sri Lanka Public Sector Accounting Standard 11.	The capital grants in the annual accounts are Rs. 50,000,000 has been received for capital expenditure. Therefore, receipts for capital funds are included in the statement of financial position. Therefore, it is correctly included in the statement of financial position for the year 2022.	Focuses to Sri Lanka Public Sector Accounting Standards 11 and should be prepared financial statements accordingly.
(c) According to Sri Lanka Public Sector Accounting Standard 19, the Actuarial Valuation Method should be used in the calculation of employee gratuity benefits, but the Institution had not followed the requirement of the standard.	According to the Gratuity Act No. 12 of 1983, since the beginning, the calculation of gratuity has been done according to the provisions of that Act. Gratuity calculation has been done as per Gratuity Act because of payment has to be made as per Gratuity Act. So there is no error in it.	Must comply with Sri Lanka Public Sector Accounting Standards.
(d) According to Sri Lanka Public Sector Accounting Standard 20, intangible assets and property, plant and equipment should be identified separately although the previous year's audit reports indicated but computer software amounting of Rs.3,027,020 was also recorded under property plant and equipment during the year under review.	According to Sri Lanka Public Sector Accounting Standard No. 20, the value of computer software, which is an intangible asset, amounting to Rs.3,027,020 will be corrected and presented in the accounts of the year 2023.	Must comply with Sri Lanka Public Sector Accounting Standards.

## 1.5.2 Accounting Policies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
As per the accounting policy followed by the Institution, it is stated that the course income is accounted on accrual basis, but the amount of Rs. 924,488,875 received in the year under review was accounted as course income without correctly identifying the course fee related to the year under review.	The income actually received in the year under review is accounted as course income and it is a practical problem to confirm how the income received and the income to be received are included. According to the system introduced with the People's Bank and the Bank of Ceylon to collect course fees, this problem will be avoided in the future.	Financial statements should be prepared in accordance with accounting policies.

## 1.5.3 Accounting Deficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Although Department of Labor had been approved to cut off the surcharge amounting Rs.23,077,254 that should have been paid to the Employees' Provident Fund for the period from 2006 to 2015, but it was not done. Due to accounting the amount of Rs.18,677,735 paid during the year under review as an expense of the year, the accrued expenses was overstated by Rs. 41,754,989 and the profit for the year was understated by Rs.18,677,735 and accumulated fund also understated by Rs. 23,077,254 in the financial statements.	Although the money was to be paid in 10 years from 2005 to 2015 Since that value is revealed only after the lapse of 10 years and the period has already passed and it has been a long time the financial statements and annual reports related to those years have been adopted in Parliament the explanations related to those reports are impractical these arrears have been taken into account in the Employees' Provident Funds during the year under review. However, the relevant expenditure will be adjusted to the accumulated fund in the accounts of the year 2023.	Expenses related to the period should be accurately identified and accounted for.
(b) Due to the capital expenditure of Rs.1,200,949 incurred on a hostel in 2008 being shown as work in progress, the balance of the work in progress account was overstated and the value of property, plant and equipment was understated by the same amount in the financial statements.	Due to lack of funding in the years after 2008, 2019/2020 allocations have been allocated for these repairs and have now been fully completed. The relevant adjustments for capitalization will be corrected by the restated accounts of the year 2023.	After the work is completed, the capital expenditure should be capitalized.

- (c) Due to the fact that Rs.637,390, which was the retention amount for the repair of the burnt building in Meepe, had been added to the bill twice, the balance of the work in progress account and the retention account had been overstated by Rs.637,390. That relevant correction will be made in the accounts of the year 2023. Accurately identify and account for expenses.

#### 1.5.4 Unreconciled Control Accounts or Records

Item	As per financial statement	As per corresponding records	Difference	Management Comment	Recommendation
		Rs.	Rs.		
Hostel income	15,739,042	16,786,946	1,047,904	That will be corrected.	Financial statements and schedule income should be compared.

#### 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Paragraph 394(d).	As on the last date of the year under review, the value of cancelled Cheques was Rs.762,448 and necessary adjustments had not been made properly.	Necessary adjustments will be made in the year 2023.	Financial Regulations should be followed.
(ii) Section 569, 570 and 571 of the Financial Regulations.	Financial Regulations were not followed on Miscellaneous deposits more than 2 years amounting of Rs.7,025,424 as on the last day of the year under review.	Financial Regulations will be followed.	Financial Regulations should be followed.

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| (b) | Section 371(2)(b) as amended by Finance Circular 01/2020 dated 28 August 2020 and para 9.1 of that circular. | Although the approval of the General Treasury should be obtained with the recommendation of the Chief Accounts Officer of the Ministry of Lines, in giving an interim advance exceeding the limit of Rs.100,000 an advance amount of Rs.2,448,335 had been given in 09 occasions contrary to that provision. | As it has been stated in the audit query that the approval of the Council of Institutions is not a valid approval, necessary steps will be taken to obtain permission from the Treasury.   | Circular should be followed.  |
| (c) | Section 4(m) and 28 of the National Education Act No. 28 of 1985.  | As per the provisions of the Act, the Code of Administrative and Financial Regulations of the Institute had not been approved till the end of the year under review.   | The Administrative and Financial Regulation code of the Institution was approved in the 469 Institutional Council meeting held at the National Institute of Education, and since there is a further amendment to be made in its introductory chapter, after the amendment is approved, the Code of Administrative and Financial Regulations will be sent to the Treasury for approval. | The Code of Administrative and Financial Regulations should be approved and acted upon. |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review was a surplus of Rs.572,939,994, while the corresponding previous year's deficit was Rs.72,631,933. Accordingly, an increase of Rs.645,571,927 was observed in the financial result. This growth was mainly due to the increase in course fee income.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) An agreement was entered into with the "Salacine" television station on 24 December 2021 to inform the people about the new education reforms and according to the agreement, an expenditure of Rs.15,412,150 was incurred to	The media unit under the Director general of the National Institute of Education worked under the supervision of the media consultant appointed by the Asian Development Bank to create 45 programs to inform the people about the upcoming	Contractual works should be completed on the scheduled dates.

- produce 05 television programs. Although the related campaign programs should be completed before 29 December 2021, the related programs had not been announced by the end of the year under review.
- education reforms.
- The publicity work had to be done according to a plan prepared by two media consultants selected by the Asian Development Bank
- That the starting date of the relevant plan and campaign project will be decided after the recommendation of the Cabinet sub-committee appointed by the Honourable President to consider the education reforms.
- (b) Although the Department of Bilingual Education has spent Rs.1,288,810 for Piriven education, planned activities had not been completed.
- The Ministry of Education Piriven unit made written inquiries on several occasions but did not receive any response, so this work had to be temporarily stopped and it will be removed from the plan by informing the Institute Council through the revision of the annual plan.
- Before making plans and incurring expenses, the practical situation should be taken care of.
- (c) Under professional development courses, the Department of Teacher Education had planned to hold 200 chapters for Master of Education in Curriculum pedagogy courses in the year under review, but the courses were not started due to the lack of approval from the Academic Affairs Board.
- The Master of Education course currently being run by the institution has been temporarily suspended as it is planned to carry out the tasks more effectively in the upcoming reorganization activities.
- Action plan should be followed.

### 3.2 Human Resource Management

Audit Issue	Management Comment	Recommendation
(a) (i) As per Scheme of Recruitment as on 11 December 2003, an officer with 13 years of service in a 2-II post in the teaching service without post-graduation in the field and without requisite work experience was selected for the post of Chief Project Officer iv. a formal letter of appointment was sent to the said officer. He had been promoted to the post of Director (English Language) on 01 July 2013 before the letter of confirmation of appointment was not issued.	But when the officer was appointed as the Chief Project Officer of the English Department, he was working in a 2-II position in the Sri Lanka Teaching Service, and his total service period was 13 years. He has completed Master's Degree in Linguistics from Kelaniya University since 01.07.2002. According to these qualifications, he has been appointed to the position of Chief Project Officer of the English Department from 02.08.2004.	Scheme of Recruitment should be followed.

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| <p>(ii) In terms of Chapter XII, Section 14.2 of the Establishment Code of the Democratic Socialist Republic of Sri Lanka, a temporary officer without a formal letter of appointment was not entitled to study leave with full pay and on two occasions foreign leave with pay had been granted to an officer who had not been issued a letter of permanent appointment.</p>  | <p>This officer has been duly relieved from the teaching post by a letter dated 15.08.2017. Accordingly, after granting a day's paid study leave, appointment to the National Institute of Education within the period, with effect from 02.08.2004, that there is formal education subsequently.</p>   | <p>Shall act in accordance with the provisions of the Establishment Code.</p> |
| <p>(iii) 13 years after the temporary appointment letter was issued by the Director General of the Institute without explaining the reasons for making the appointment permanent and valid from 02 August 2004 to an officer of the post of Chief Project Officer Grade IV issued on 24 October 2017 had done.</p>   | <p>A letter of formal appointment has been issued for the post of Chief Project Officer with effect from 02.08.2004 subject to one year probationary period dated 12.10.2017. Thus, after 13 years, regarding the issuance of a formal letter of appointment, the matter was clarified and approval of the Institutional Council was not done, and this appointment was issued by the Director General.</p>   | <p>Arrangements should be made to confirm the appointments as scheduled.</p>  |
| <p>(iv) According to the Scheme of Recruitment approved by the Department of Management Services on 18 January 2013, for the position of Deputy Director General (Language Humanities and Social Sciences), at least 6 years of experience should be obtained in the position of Director. Since the formal appointment letter of the position of Chief Project Officer, which was the original appointment of the concerned officer, and the confirmation of that position took place in 2017, the promotion to the position of Director (English Language) made on 01 July 2013 is invalid, so the qualifications required for the position of Deputy Director General are also completed. It was observed that it was adversely affected.</p> | <p>The post of Deputy Director General has been offered with effect from 05.07.2021. At that time, the Scheme of Recruitment dated 15.06.2021 approved by the Department of Management Services was in operation, and according to that scheme, Director post (HM1-1) in the relevant field should have completed 05 years of satisfactory service.</p> <p>The formal appointment letter of the Chief Project Officer position and the confirmation of that position took place in 2017, if the promotions related to the position of Director made in 2013 are invalid, it is accepted that the qualifications related to the position of Deputy Director General have not been completed.</p> | <p>Scheme of Recruitment should be followed.</p>                              |



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| (b) (i) | Relevant basic qualifications had not been confirmed in appointing and confirming the post of Project Officer on 01 June 1999, who currently work as a Deputy Director General (Science & Technology).                          | It is admitted that the relevant basic qualifications were not confirmed during the appointment and confirmation of the post of Assistant Project Officer from the post of Assistant Project Officer on 01 June 1999.   | Relevant qualifications must be confirmed.                                  |
| (ii)    | As per recruitment procedure as on 18 January 2013 without completing Post Graduate qualification in the relevant subject, had been appointed as Director (Mathematics) from 01 July 2013.                                      | Appointed as Director (Mathematics) from 01.07.2013. As per approved recruitment procedure dated 18.01.2013 must have completed post graduate qualification in relevant subject. The relevant officer has completed Post Graduation from University of Sussex. The degree certificate states "International Master of Arts Degree".   | Recruitment procedure should be followed.                                   |
| (c)     | An officer appointed to the post of Director (Finance) with effect from 01 December 2016 did not have the post-service experience as per the recruitment procedure.   | In the application sent for the post the year in which the Executive Stage 1 qualification was completed is not included. A perusal of the certificates reveals that this Executive Phase 1 was completed in December 2012. Accordingly, it is accepted that he has been recruited with insufficient work experience.   | Scheme of Recruitment should be followed.                                   |
| (d)     | An officer appointed as Audit Assistant with effect from 02 August 1992 was appointed as Acting Internal Audit Officer from 03 August 2012. The officer had been posted as Audit Officer before the restructuring was approved. | Acting Internal Audit Officer has been appointed with effect from 01.07.2012. The Department of Management Services has approved the staff for the National Institute of Education on 22.12.2011. But the recruitment procedure has been approved by letter dated 18.01.2013. Accordingly, when the relevant officer was appointed to the position of Acting Internal Audit Officer, there was an approved position and only the recruitment procedure for that was not approved. | In the recruitment of officers, the existing procedures should be followed. |