

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the National Institute of Social Development for the year ended 31 December 2024 comprising the statement of financial Position as at 31 December 2024 and the statement of financial performance, statement of changes in equity and cash flow statement for the year ended, and notes to the financial statements, including material accounting policy information 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 reported to Parliament.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of as at 31 December 2024, and 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 based 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, it 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 Audit Scope

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 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Internal Control over the preparation of Financial Statements

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.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Due to the incomplete presentation of 35 journal entries at a value of Rs.120,718,042 in the financial statements submitted during the year under review without mentioning the note, the details of those transactions could not be examined.	When the financial statements for the year 2024 were submitted for audit, a soft copy of the general ledger was also submitted along with it and 35 journal entries of that general ledger have been submitted along with relevant notes.	Basic information related to transactions and journal entries should be presented in a formal manner along with the financial statements in accordance with the Accounting Standards.
(b) The expenditure amounted to Rs. 649,605 and Rs. 3,338,268 respectively incurred for the purchase of office equipment and networking of the building for the National Institute of Social Development for the year under review was adjusted to the accumulated fund.	The purchase of capital equipment and networking of the Seeduwa Wing (B) building was made from the National Social Development fund under the approval of the Governing Council.	Transactions should be accurately accounted in accordance with the Accounting Standards.

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 Government of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 1644	Even though daily running charts and monthly summaries should be submitted to the audit before the 10th of the following month, action had not been taken accordingly regarding 08 vehicles owned by the institution.	Necessary action is being taken to send daily running charts and monthly summaries to the audit before the 10th of the following month.	Action should be taken in accordance with the Financial Regulations.
(ii) Financial Regulation 1645	Vehicle log books had not been updated and maintained.	The necessary instructions have been given to update vehicle logbooks for every vehicle in the custody of the institution and that work has been completed.	-Do-
(b) Paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016	Even though the consumption of fuel should be re-tested after a period of 12 months from each fuel test or after running a distance of 25,000km or after carrying out a major repair to the engine, whichever occurs first, 08 vehicles owned by the institution had not undergone fuel burnt test and internal control regarding the vehicles was also in a poor condition.	The fuel burnt tests for the year 2025 are scheduled to be conducted in May.	Action should be taken in accordance with the Circular.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs.32,150,386, and the corresponding surplus in the preceding year amounted to Rs.12,241,680. Accordingly, an improvement amounting to Rs.19,908,706 of the financial result was observed. The reason for the improvement was mainly due to the increase in income.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) In the year 2017, a treasury provision of Rs.1,000 million was allocated for the construction of a building of the National Institute of Social Development and the contract was awarded to the State Engineering Corporation under the design and build procurement method at a contract value of Rs.818.795 million (excluding VAT and suspense expenditure) subject to the approval of the Cabinet Appointed Procurement Committee, with the commencement date of 19 September 2017 and completion date of 04 April 2020. The total annual provision allocated by the Department of National Budget for the construction of the building from 2017 to 2024 was Rs.2,181.13 million. The following observations are made in this regard.	Answers have not been given.	Action should be taken to finish the contract activities in order to achieve the objectives of the project.
(i) Even though construction was carried out from 2017 to 2024, it had not been possible to achieve the expected results as anticipated up to the date of this report. An estimate of Rs.21.537 million had also been approved in addition to the above contract value. The contract period had been extended on eight occasions due to the crisis situation prevailing in the country and on two	Answers have not been given.	Action should be taken to finish the contract activities in order to achieve the objectives of the project.

occasions due to the delay in indemnity of price fluctuations. Wing B of the building complex had been completed and handed over, while Wing A had not been completed and handed over. Due to the lack of space to conduct classes, the first and second floors of this unfinished section had been used for conducting classes.

- (ii) According to the physical inspection conducted on 30 October 2024, the ground floor of Wing B of the two building complexes and an area of 2,511.25 square feet of the third floor of Wing A remained to be tiled. The finish of the laid tiles was in poor condition in some places. The ceramic floor tiles to be used as per the bid specifications were found to be of substandard quality, and Rs.45.554 million was paid to the contractor without taking into consideration the use of substandard materials for finishing the relevant work. Some walls were observed to have cracks in places, and the calculated price variation was Rs. 63.68 million as per the Cabinet approval given on 14 December 2021 to indemnify for the price variations. (excluding VAT) The price variations were paid even though the building was not constructed in accordance with the standard.
- The floor tiles of Wing B have been completely finished. 100 square feet of the third floor of Wing A are left to be tiled. The State Engineering Corporation has taken measures to prepare the finishing of these tiles.
- Construction should be done in accordance with standards, and payments should be made accordingly.
- (b) The Student Paying-in- Vouchers used for the relevant payments by the students who are receiving services from the School of Social Work, the Registrar's Office and the Training Division of the National Institute of Social Development had been given to other institutions (Regional Centers) by the Divisions. Owing to this, it was not possible to examine the recovering of income properly, and to account of income and copies of the vouchers that should have been given to the
- The relevant Divisions have been informed in this regard, and when issuing to the Regional Offices, instructions have been given not to issue the Paying-in-voucher books issued to the Division and issue them to the Regional Centers directly from the stores .The relevant Divisions have also been informed in this regard and instructions have been given to issue the other receipt book as soon as a receipt
- Necessary action should be taken to account the income properly.

relevant parties had been given to the Accounts Division. It was also observed that due to the failure to properly follow the revenue accounting procedures and weaknesses in internal control, there is a possibility of revenue accounting irregularities, and a problematic situation arises in the repayment of course fees due to students dropping out of courses midway.

- book is finished in the future.
- (c) There was no separate current account opened for the fund to deal with the receipts of money and incurring of expenditure related to the fund of the National Institute of Social Development, and transactions had been made through a current account that is maintained at present. All transactions related to course fees were recorded through that account and all transactions related to the fund had also been made through the same.
- A current account has not been maintained for the fund of the National Institute of Social Development up to date and action will be taken to open a current account with the approval of the Governing Council to make transactions related to the fund of the National Institute of Social Development in the future.
- A separate current account should be opened for the National Institute of Social Development.
- (d) Rs.120,000 given to an external institution as an advance for holding the annual graduation ceremony of the institution had not been settled by the end of the year under review.
- The annual graduation ceremony of the institute was planned to be held in July 2024, and an advance payment of Rs.120,000 was made to the BMICH to reserve a date for this purpose. However, due to the errors in the issuance of examination marks for the course, the date was postponed to October 2024. However, since BMICH was unable to reserve another date in the year 2024, it has been decided to hold the graduation ceremony at the Nelum Pokuna Theatre.
- Action should be taken to recover the relevant amount and settle the loss to the government.
- The governing authority of the BMICH has informed that this amount cannot be refunded.

- (e) The student hostel in Kelaniya, which had an assessed value of Rs.10,600,000, had been lying idle with the goods used since June 2020 until the date of the report. This hostel had been unused for more than 04 years, and since it had not been properly maintained, the hostel was deteriorating. However, the management had not taken appropriate action promptly regarding this property.
- With the establishment of the institution in the Liyanage Mulla area of Seeduwa in 2020, students moved out of the Kelaniya hostel and settled in the Seeduwa area. Due to the Covid pandemic in 2020, all lectures in all courses of the institution were conducted online. The estimated cost of the renovation of the Kelaniya hostel in 2022 was Rs.3.1 million. Requests were made to renovate the building in order to provide the hostel to another party for an adequate lease rental. Preliminary work is being carried out to present a Cabinet Memorandum by explaining the requirement to re-evaluate the property values, sell the building and purchase a building in the vicinity of the Seeduwa area.
- Appropriate action should be taken regarding the property.