

**1.1 Qualified Opinion**  
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The audit of the Financial Statements of the National Institute of Education for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and 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 summary of significant accounting policies was carried out under my direct pursuance according to the provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with National Audit Act of No 19 of 2018 and Finance act of No 38 of 1971. My comments and observations which I intend to report to the parliament are included in this report.

In my opinion, except the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give true and fair view of the financial position of the Institute as at 31 December 2019, and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for qualified opinion**  
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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 responsibility under these 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**  
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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards, and determining internal controls which are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

While the management is responsible to determine the ability of the going concern of the entity when preparing financial statements, it is also the responsibility of the management, accounting on going concern and disclosing matters related to the going concern of the entity unless the management intend to either liquidate the entity or to cease the operations where no other alternative but to do so.

As per the Section 16(1) of the National Audit Act No 19 of 2018, the entity is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable preparing annual and periodic financial statements of the entity.

## 1.4 Auditor's Responsibility regarding the Audit of Financial Statements

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My objective is to give reasonable assurance on financial statements as a whole free from material misstatements whether due to fraud or errors and issue auditor's report that includes my opinion. Reasonable assurance is a high level assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect material misstatements when it exists. Misstatements can arise from fraud or error and 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 judgement and maintain professional skepticism throughout the audit. And 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 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 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 achieve 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 operations.

- 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 Financial Statements

### 1.5.1 Internal controls 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 managers’ 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 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 Noncompliance with Sri Lanka Public Sector Accounting Standards.

	<b>Non Compliance with reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	As per the Sri Lanka Public Sector Accounting Standard 01 (SLPSAS -01) Income and Expenses should not be off set. However, an income of Rs.840,299 has been off set against the expenses in the year under review.	Agreed and actions will be taken to correct the same.	It should be complied to Accounting Standard
(b)	As per the Sri Lanka Public Sector Accounting Standard 02 (SLPSAS -02), Gratuity provision of Rs.72,000, selling of assets of Rs.2,023,600 and profit of Rs.840,299 on disposing of assets were not presented properly in the	Agreed and actions will be taken to correct the same.	It should be complied to Accounting Standard

statement of Cash Flow. And also, a schedule was not provided to the audit for adjustments of Rs.2,733,570 included in the statement of the Cash Flow.

- (c) As per the Sri Lanka Public Sector Accounting Standard 07 (SLPSAS -07), when the revaluation is done for assets, the entire class of the asset should be revalued. However, at the revaluation of vehicles, four vehicle costing to Rs.14,600,000 were not revalued.
- Agreed and actions will be taken to correct the same.
- It should be complied to Accounting Standard

### 1.5.3 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) Since, the investment of Rs.19,826,596 made in Treasury bills which was matured in the year under review was accounted as an investment income ,the deficit of the year under review was under stated by same amount in the financial statement.</p>	<p>Agreed and actions will be taken to correct the same.</p>	<p>Income of the year should be recognized correctly.</p>
<p>(b) Since capital grants of Rs.103,041,957 received from the Ministry of Education was accounted as recurrent income in the year under review, the deficit of the year under review was under stated by same amount in the financial statement.</p>	<p>Even though this was given from the capital vote of the Ministry of Education, this has been estimated as recurrent income as per the budget of the National Institute of Education</p>	<p>Actions should be taken to account correctly.</p>

#### 1.5.4 Amounts payable

Audit Observation	Management Comment	Recommendation
(a) Refundable deposits of Rs. 1,887,031 which was being carried forward more than 05 years were not settled or written back deposit expired the liability period to the income	Actions will be taken to account as income the balances more than 05 years in the future.	Actions should be taken to settled.
(b) Rs.68,757,865 payable as Provident fund and surcharge amount for the period from the year 2006 to year 2015 has not been settled even at the end of the year under review.	A request has been made by the Institute through an appeal to pay as installments	Actions should be taken to settled.

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

Reference to Laws, Rules, Regulations etc.	Non – compliance	Management Comment	Recommendation
(a) 4 (k) and clause 28 of National Education Act No 28 of 1985	The administrative and Financial Regulation code of the Institute has not been approved according to the provisions of the Act	Actions will be taken to get it approved in the future.	Actions should be taken to get it approved properly.
(b) Establishment Code of the Democratic Socialist Republic of Sri Lanka			
(i) 13.3 Clause of Chapter II	Acting appointments have been given for One post of Deputy Director General , two posts of Director and one	These acting appointments have been made to cover the relevant duties based on the service requirements, and	Actions should be taken to fill these vacant posts immediately.

post of Shroff in actions will be the years taken to recruit for 2015,2016,2018 & the Director posts 2019 Contrary to according to the the provisions of Scheme of the Establishment Recruitment Code and which is being Rs.478,128 was revised at present. paid as allowances in the year under review.

- (ii) 6.1 Clause of Chapter VIII Although overtime Overtime have Actions should be rate should be been paid taken to get the calculated based on according to the proper approval for monthly letter of Assistant the Establishment consolidated salary Commissioner of and Financial (excluding Labour dated 22 Regulation code of allowances), based March 1995 , and the Institute on an instruction also after the incorporating the letter No clarifications were base salary which D/S/811/617/94 made from overtime is dated 22 March Department of calculated. 1995 issued by an Attorney General and Department of Commissioner of Management Labour, from the Services, it has year 2016 the been informed by overtime rates have them that no been calculated objections for the based on gross instructions of salary and Assistant Rs.37,226,200 has Commissioner of been paid as Labour overtime for the year under review. However, actions have not been taken to get the proper approval for the Administrative and Financial Regulation code of the Institute

incorporating the base salary which overtime is calculated.

- (c) No 257 Circular approved for the Institute by Department of Management Services of the Treasury in the year 2013
- In contrary to the provisions of the circular, Rs.6,786,256 for 89 officers from the year 2014 to 2018, and Rs.505,915 for 09 officers for the year under review had been over paid as allowances. However, Treasury approval has not been obtained for that.
- Necessary actions will be taken to get this circular amended informing to the Department of Management Services
- Payments should be made according to the Circular
- (d) 9.3.1 (b) Clause of the government procurement guidelines amended by supplements No 19 dated 06 September 2010 and No 33 dated 15 March 2017
- Although the approval of the Secretary of the Line Ministry should be obtained for the vehicle repairs exceeds the Rs.200,000, Rs.2,861,623 had been paid in 07 occasions for vehicle repairs without the approval of the Secretary of the Line Ministry in the year under review
- Vehicle repairs have been done after obtaining the Procurement Committee approval
- Provisions of the Procurement Guidelines should be followed.

## 2. Financial Review

### 2.1 Financial Results

As per the presented Financial Statements, financial results of the Institute for the year ended 31 December 2019 was a deficit of Rs.41,340,476 and corresponding the surplus of the previous year was Rs.69,346,117. Accordingly, it was observed that a deterioration of Rs.110,686,593 in the financial results of the year under review compared to previous year. Reduction of recurrent foreign grants by Rs.344,084,500 in the year under review compared to the previous year was mainly affected for this deterioration.

### 2.2 Ratio Analysis

When consider the Working Capital Management of the Institute, the current ratio remained at 3.5:1 in the previous year has been changed to 3.4:1 in the year under review and quick assets ratio remained at 3.3:1 in the previous year and it is 3.2:1 in the year under review. 80 percent out of the current assets represents Treasury bonds and the balances of bank current accounts. Accordingly, huge amount of assets of the institute have been retained in the liquid assets.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although conducting lectures and practical relevant to the academic subjects of the Bachelor of Education (Engineering Technology) degree programme which is conducted for the Advanced Level Teachers have been assigned to the University of Vocational Technology in 2015 without a Memorandum of Understanding (MOU), that institute has withdrawn from conducting lectures in 2017. Again, without an agreement those same 211 Teaching Students have been sent to four Universities and Rs.52,444,398 had been paid as course fees. And also, since, agreements were not entered	Actions are planned to have Memorandum of Understanding (MOU) immediately after discussing with the authorities of four Universities and appoint a committee to look in to teaching students who have not completed the course successfully.	Actions should be taken to sign the agreements immediately and recover the amount spent by the government from the teaching students who have given up the course



with the teaching students who gave up the course , Rs.22,644,843 of course fees of 96 paid to 04 Universities could not be recovered.

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| (b) | Actions were not taken to recover the overpaid salaries of Rs.2,345,269 made for 131 officers from the year 2009 to 2011 even at the end of the year under review.                       | The revised name list of recoveries are being prepared by the Finance Department.  | Actions should be taken to recover immediately.  |
| (c) | A physical verification has not been conducted for the library books amounting to Rs.45,034,652 which acquired before 2008 and also a schedule of those books was not given to the Audit | Verification activities of books are being conducted and instructions have been given to prepare a schedule by inserting correct data of library books with the prices of the books and handover to the Finance Division | Actions should be taken to calculate the value of those library books and take in to the accounts. |

### 3.2 Procurement Management

----- <b>Audit Observation</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
According to the agreements, one-year construction period of the hostel of Meepe South Asian Teaching Development Centre has been extended up to 15 December 2019 by the Director (School Building) without getting confirmed that the delay has been caused due to out of the Contractor's control according to the procurement guidelines. The Contract has not been completed even at 30June 2020.	Extension has been given since an additional cost and period has to bear by cancelling this contract and assigning to another contractor.	Actions should be taken to get the contract completed within the approved time

**3.3 Human Resource Management**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Actions were not taken to fill 159 vacancies of the Institute even at the end of the year under review	According to the Scheme of Recruitment (SOR) effective from 01 March 2013, vacancies could have not been filled due to the required qualifications for many vacancies are over stated.	Actions should be taken to amend the Scheme of Recruitment and fill the vacancies

**4. Accountability & Good Governance**

**4.1 Budgetary Control**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
It was observed variances in a range of 3.9 percent to 264.3 percent when budgeted recurrent expenditure are compared with actual expenditure. Accordingly, it was observed that, the Budget has not been used as an effective management control tool.	Necessary future actions will be taken to avoid this situation.	Actions should be taken to identify the priorities exactly when the budget is prepared and get those accomplished within that time frame as expected.