

National Institute of Education - 2021

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 2021 comprising the statement of financial position as at 31 December 2021 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. 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 2021, 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

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
The required disclosures were not made in the financial statements as per Sri Lanka Public Sector Accounting Standard 11, regarding capital grants of Rs.176,008,097 received by the institution during the year under review.	I will take steps to make the necessary disclosures in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard 11.	Financial statements must be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The total retention amount of Rs.1,801,121 related to the 04 completed projects as at 31 December of the year under review, was shown under work in progress without capitalization, so the building value was understated and the work in progress value was overstated in the financial statements.	The relevant corrections will be made in the financial reports related to the year 2022.	Retention related to completed projects should be capitalized.
(b)	As per the accounting policy followed by the institution, though it was stated that course income is accounted on accrual basis, course income was accounted on cash basis. Although the course income for the year under review is Rs.6,968,250 relating to 02 courses which were subjected to sample examination, a sum of Rs.11,457,000 was stated in the financial statements as course income for the year, as the course fees amount of Rs. 4,488,750 received for the years 2020 and 2022 have been adjusted to	Teachers pay the fees for the various courses conducted by the institution through the account held in the name of the National Institute of Education in the Bank of Ceylon. Accordingly, the institution will do the accounting of the course income according to the information received from the bank statements and receipts.	Course revenue should be accounted for in accordance with accounting policies.

the year under review.

- (c) Due to the fact that the value of the computer software which was purchased during the year under review for Rs.3,027,020 was written off as an expense of the year instead of being capitalized under intangible assets, therefore, the expenses over income for the year was overstated and the intangible assets was stated in the financial statements was understated by that amount.
- It is accounted for as an expense by omission, and this will be corrected by journal entries in the 2022 financial statements.
- Costs related to purchased computer software should be accounted for under intangible assets.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 10.1 of Chapter VIII of the Establishment Code of Institutions of the Democratic Socialist Republic of Sri Lanka	Contrary to the provisions of the Establishment Code, 1/20 allowances were paid on the gross salary based on an internal circular No. 179 dated March 26, 1996 issued by the National Institute of Education.	Allowances for working on public holidays and weekends to staff officers employed in the National Institute of Education had been paid in accordance with the provisions of Section 17.5 of Chapter 6 of the Governance and Finance Code of the National Institute of Education.	Payments shall not be made in accordance with the Code of Administrative and Financial Regulations without formal approval and shall proceed in accordance with the provisions of the Establishment Code.
(ii) Sections 4 (l) and 28 of the National Education Act No. 28 of 1985	Till the end of the year under review, the Code of Administrative and Financial Regulations of the Institute had not been approved.	The code of administrative and financial regulation of the National Institute of Education is currently in the final stages of drafting and accordingly the draft is expected to be submitted for approval very soon.	According to the Act of establishing the National Institute of Education, the Code of Administrative and Financial Regulations should be approved.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.72,631,933 and the corresponding surplus in the preceding year amounted to Rs.124,084,044. Therefore, a deterioration amounting to Rs.196,715,977 of the financial result was observed. The reason for the deterioration is increase in the expenses of maintenance and contractual services.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	While the position of legal officer in the approved cadre of the National Institute of Education was vacant, an officer was appointed for the post of legal coordinator, which is not included in the approved cadre, from 02 November 2020 and Rs.952,550 was paid as salary and allowances for him from that date to the end of the year under review.	Due to the retirement of the legal officer employed by the institution from 01.11.2020, until a new officer is recruited and the legal works are properly handed over to the new officer by the institutions, the legal coordinator service has been obtained from the lawyer who was in charge of those matters, and arrangements have been made to obtain that service under payment for those days only.	Only the vacancies in the posts included in the approved staff shall be recruited and paid salaries and allowances.
(b)	Although the construction works of the dormitory building of Meepe South Asian Teacher Development Centre, which is being built at an estimated cost of Rs. 198 million based on a 2015 budget proposal with the aim of providing residential facilities to 100 local and foreign teacher students, should have been completed by 05 December 2019, by the end of the year under review, although extensions were given on 06 occasions, the construction work had not been completed till the date of the report. Further, the approval of the Urban Development Authority for carrying out these construction works had not been obtained till the date of the report.	Due to the collapse of the construction industry in the country at that time and the difficulties in supplying the required number of workers to the work site due to the Covid-19 epidemic situation in the country, the contractor has failed to complete the scheduled construction work. Also, due to the problem of obtaining raw materials due to the shortage of raw materials in the country, it has not been possible to complete the project and the physical progress is currently at 93%.	Within the contracted period, the projects should be completed and applied to the relevant objectives, and formal approvals should be obtained to carry out the project.

3.2 Operational Inefficiencies

	Audit Observation -----	Management Comment -----	Recommendation -----
(a)	A sum of Rs.8,020,000 had been allocated for 09 research grants for the years 2017 and 2019, but only Rs.2,274,970 had been spent for 07 research grants.	Nine applications were published in the year 2017, and three qualified persons were signed contracts with the institute in December 2017. One person was to complete the research in one year and the other two in two years. Accordingly, only the first phase payment due to them was given in the month of December 2017. 04 research grants were given in the year 2019 and although they started their research in September 2019 and should be completed it in September 2020, due to the delay in data collection due to the Covid-19 epidemic situation in the country, their research was completed and the report was handed over to the institute in the year 2021.	Arrangements should be made to utilize the provisions made in relation to the year to the maximum extent during the year.