

National Institute of Social Development - 2014

The audit of financial statements of the National Institute of Social Development for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 18 of the National Institute of Social Development Act, No.41 of 1992. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14((2)(c) of the Finance Act, appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI-1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Institute of Social Development as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

- (a) The Statement of Changes in Net Assets/ Equity had not been presented along with the accounts in terms of Sri Lanka Public Sector Accounting Standard 01.
- (b) The statement of financial position presented as at the end of the year under review had not been prepared according to the relevant format.
- (c) Even though each material class of similar items should be presented separately in the financial statements in terms of paragraph 45 of Standard No.01, income from academic programmes amounting to Rs.30,326,318 of the year under review had been shown under other income.

2.2.2 Accounting Policies

The following observations are made.

- (a) An Accounting Policy on course fees had not been established and disclosed.
- (b) Even though the Treasury had granted provisions annually for capital expenditure, a clear accounting policy had not been established and disclosed on accounting and writing off of those provisions.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though the Treasury had granted a sum of Rs. 80,855,000 for recurrent expenditure in the year under review, it had been shown as Rs.80,899,000 in the financial statements.
- (b) Capital expenditure amounting to Rs. 150,509 had been brought to account as recurrent expenditure.
- (c) Even though a sum of Rs.244,080 had been paid as gratuity to an officer retired in December 2014, that amount had been debited to the Gratuity Expenditure Account

instead of debiting to the Gratuity Provisions Account. As such, the gratuity expenditure had been overstated by Rs. 244,080 in the statement of financial performance of the year under review.

- (d) According to the bank reconciliation statement prepared for December in the year under review, other fees amounting to Rs.1,264,281 charged from the students for various courses credited to the bank account but not debited to the cash book, had not been brought to account as income.

2.2.4 Unexplained Differences

An asset amounting to Rs.6.592,425 and a liability amounting to Rs.6,362,523 had been shown as Distress Loan transfers in the statement of financial performance and the reasons for the difference of Rs.229,902 had not been revealed.

2.3 Transactions not supported by Adequate Authority

The following observations are made.

- (a) Even though a sum of Rs.4,048,400 had been paid for lectures conducted during weekends for the officers of the Institute from the fees charged for various courses during the year 2014, approval had not been obtained for that in terms of Circular No.39 of 29 May 2009 of the Department of Management Services.
- (b) Intangible assets amounting to Rs.694,118 shown in the accounts had been written off from the books of the year under review and the approval of the Board of Directors and the Treasury had not been obtained for the writing off of those assets.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The non-compliances with laws, rules, regulations etc. observed in audit are as follows.

Reference to Laws, Rules and Regulations,	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulations 104(3) and (4)	Preliminary reports or final reports on 06 vehicle accidents had not been prepared and presented to audit.
(ii) Financial Regulation 110	A Register on Losses and Damages had not been maintained.
(b) Public Administration Circulars	
(i) Sections (i) and (ii) of paragraph 2 of Circular No.3/92 of 25 January 1992	A relief period had been granted to 17 officers of the Institute for arrival and departure contrary to

- (ii) Circular No.02/99 of 26 February 1999 the Circular.
A mobile telephone at the value of Rs.37,750 had been purchased for an officer who is not entitled in terms of the Circular.
- (c) Treasury Circular No.842 of 19 December 1978. The Register of Fixed Assets had not been updated.
- (d) Section 01 of the Management Services Circular No.39 of 26 May 2009. An officer had been appointed for coordinating affairs in accordance with Decision No. 121/08/2013 of 30 August 2013 of the Board of Control and a sum of Rs.120,000 at the rate of Rs.30,000 per month had been paid for a period of 04 months in the year 2014 contrary to the Circular.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2014 had been a deficit of Rs.907,191 as compared with the corresponding deficit of Rs.7,806,700 for the preceding year, thus indicating an improvement of Rs.6,899,509 in the financial result. Increase in the Government recurrent grants by Rs.15,838,000, Government capital rehabilitation grants by Rs.3,615,866, and other receipts by Rs.34,138,402 had mainly attributed to the above increase.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The performance report prepared according to the Action Plan for the year under review, had been prepared by different divisions monthly and a performance report indicating the physical and the financial position for the entire Institute had not been prepared.
- (b) The Action Plan had not included the activities expected to be implemented at the Training Centres at Anuradhapura and Talawa and the Hostel at Kelaniya of the Institute during the year under review.
- (c) **School of Social Works**

- (i) It was observed that Examination Board Meetings had not been held relevant to 05 Degree Courses included in the Action Plan of the year under review.

- (ii) Even though it had been planned to commence Social Work Diploma Courses included in the Action Plan of the year 2014 in the districts of Anuradhapura and Ampara by the School of Social Works, those courses had not been commenced during the year 2014.

(d) **Training Division**

- (i) Examination Boards had not been held relevant to two Diploma Courses on Consultation by the Training Division.
- (ii) Even though it had been planned to conduct 11 short term training programmes and provide training for 630 persons by the Training Division, only 442 persons had participated in the short term training programmes. As such, it is observed that this represents 70 per cent of the targeted number.
- (iii) The following courses and functions targeted to be achieved in the Action Plan for the year 2014 had not been carried out.
- The short term training programme on Stress Management and Basic Psychological Consultation for prison officers
 - The short term training programme for the staff of the Kesbewa Divisional Secretariat
 - The Capacity Building Training Programme for the academic and non- academic staff of the Institute
 - Commencement of a training centre in Kandy

(e) **Social Development Policy, Research and Publication Division**

Out of the 12 activities which should be fulfilled according to the Action Plan of the year 2014, only 9 had been fulfilled during that year. Three activities expected to be fulfilled had not been fulfilled and 3 activities irrelevant to this division had been fulfilled.

4.2 Management Inefficiencies

The following observations are made.

- (a) The loss of Rs.86,450 sustained in respect of three vehicles that had met with accidents, had not been recovered from the responsible persons.
- (b) Even though the Treasury had granted a sum of Rs.02 million to the Institute in the year 1998 to establish a revolving loan fund, action had been taken to issue the same amount as loans without taking action to establish a loan fund.

4.3 Weaknesses in Financial Control

The following observations are made.

- (a) Payments had been made for 02 vouchers of Rs.9,000 and Rs.6,000 respectively on the instructions of the Accounting Officer without entering in the Cash Book.
- (b) Even though a sum of Rs.918,000 had been paid to a building owner as Value Added Tax for the building at Narahenpita in which the Institute is operated, the registration of the owner for Value Added Tax had not been confirmed.
- (c) A sum of Rs.35,287 had been paid to the Welfare Association of the Institute in the year under review.

4.4 Uneconomic Transactions

A sum of Rs.150,000 had been paid by the Institute in the year under review for the 47th anniversary and Technological Workshop of the Sri Lanka Association of Professional Social Workers.

4.5 Identified Losses

A loss of Rs.153,166 had been sustained due to an accident caused by the owner of a private security service by driving a vehicle of the Institute inside the premises and a sum of Rs.111,276 had been received from the Insurance Company. The balance sum of Rs.41,890 had been shown as repair expenses without recovering from the relevant person.

4.6 Personnel Administration

The following observations are made.

- (a) Vacancies of 22 per cent and 10 per cent existed in the academic staff and the non-academic staff of the Institute and one person of the academic staff had left abroad. Eight persons had been recruited in the year under review for the non-academic staff on casual basis on the approval of the Board of Control.
- (b) Duties had not been assigned in writing to the officers of the Training and Research Division of the Institute and research officers and three research assistants had been engaged in the duties relevant to the posts of Management Assistant outside the Research Division.

4.7 Resources of the Institute given to other Government Institutions

A sum of Rs.367,628 had been paid as salaries, travelling expenses and overtime in the year under review to an officer of the Institute, released to the Ministry of Social Services contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

5. Accountability and Good Governance

5.1 Budgetary Control

- (a) Even though the Projected Income Statement and the Balance Sheet should be prepared and presented as the Budget in terms of Section 8(3) of the Finance Act, No.38 of 1971, an income statement had not been prepared using the approved format and a statement of projected financial position had not been prepared as well.

- (b) Even though the Institute had recovered a sum of Rs.31,271,645 by conducting courses in the year under review, the income expected to be earned by conducting courses had not been included in the budget prepared for the year 2014. Moreover, the Institute uses the earnings of the Institute in addition to the Treasury provisions for expenses. However, the details relevant to it had not been included in the budget, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director General of the Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Stock Control
- (c) Income Control