National Institute of Business Management – 2015

The audit of financial statements of the National Institute of Business Management and Its Subsidiary for the year ended 31 December 2015 comprising the consolidated financial position as at 31 December 2015 and the consolidated statement of comprehensive income, statement of changes in equity and 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 24 of National Institutes of Business Management Act, No. 23 of 1976 as amended by the National Institute of Business Management (Amendment) Act No. 28 of 1991. The accounts of the Subsidiary company had been audited by a Firm of Chartered Accountants appointed by its members. 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 Sri Lanka 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 judgment, including the assessment of risks of material misstatements 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 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 financial statements. Sub-section (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 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.

2. Financial Statements

2.1 Opinion – Group

In my opinion, the financial statements give a true and fair view of the financial position of the National Institute of Business Management and Its Subsidiary as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion – Institute

In my opinion, the financial statements give a true and fair view of the financial position of the National Institute of Business Management as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements – Institute

2.2.1 Unexplained Differences

Even though the balance of the Employees' Housing Loan Account relating to the loans granted by the National Institute of Business Management through the State Mortgage and Investment Bank, as at 31 December 2015 amounted to Rs.33,846,402, according to the letter of confirmation of balances sent by the State Mortgage and investment Bank, the balance as at that date amounted to Rs.35,488,831. As such a difference of Rs.1,642,429 was observed.

2.2.2 Lack of Evidence for Audit

The detailed information relating to the balance of Rs.1,123,432 existing in the Housing Loan Receipts and Payments Control Account had not been furnished to Audit.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) According to the Debtors Age Analysis, the course fees older than 2 years receivable from students as at 31 December 2015 amounted to Rs.1,125,187.

(b) Action had not been taken even during the year under review for the settlement of the contract retention money older than 2 years amounting to Rs.1,047,618 relating to 3 institutions included in the creditors balance.

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

Non-compliance with the following laws, rules and regulations were observed.

Reference to Laws, Rules, Regulations etc.,	Non-compliance
(a) Sections 7 and 13 of the National Institute of Business Management (Amendment) Act, No. 28 of 1991	Even though the Board of Governors should meet at least once per month, only 07 meetings had been held during the year under review.
(b) Section 02 of National Institute of Business Management (Amendment) Act, No. 02 of 2014	Even though the Board of Governors should comprise 11 members, one member out of that had not been appointed. Further, two ex-officio members had not attended any of the meetings of the Board of Governors held in the year under review.
(c) Section 47 of the Employees' Provident Fund Act, No. 15 of 1958 and the Employees' Trust Fund Act, No. 46 of 1980	Even though the Cost of Living Allowance and such similar allowances should be included for the computation of the contribution to the Employees' Provident Fund, contribution of the Interim Allowance of Rs.10,000 added to the Salary in the year under review to the Employees' Provident Fund and the Employees' Trust Fund had not been computed.
(d) Section 114 of the Inland Revenue Act, No. 10 of 2006	Even though the Pay As You Earn Tax payable on the Incentive Allowance for the years 2013 and 2014 should be computed according to tax Table 2 in the month of payment, the Incentive Allowance had been devided by 12 and the Pay As You Earn Tax had been computed per month under the Tax Table 01.
(e) Section 4.2.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003	Even though the Board of Governors of the parent body should discuss the performance of subsidiaries at least once in six months according to the Minutes of meetings of the Board the performance had not been reviewed.

(f)	Paragraph 06 of the Public Enterprises Circular No. 57 of 11 February 2011	The approval of the Minister of Finance and Planning had not been obtained for the excess expenditure of Rs.10.9 million incurred on the estimated cost of Rs.48.6 million for the sales promotion activities for the year under review.
(g)	Vocational Qualifications Circular No. 01/2013 dated 26 February 2013 of the Tertiary and Vocational Education Commission	Even though all courses conducted by institutions should be accredited by the Tertiary and Vocational Education Commission as specified in the circular for obtaining National Vocational Qualification, there was no documentary confirmation that it had been done. The Institute had done only registration from 07 July 2015 to 08 July 2017.

3. Financial Review

3.1 Financial Results - Group

According to the consolidated financial statements presented, the financial results of the Group and the Institute for the year ended 31 December 2015 had been net profits of Rs.627,678,749 and Rs.164,200,400 respectively as compared with the corresponding financial results of Rs.313,635,349 and Rs.159,432,561 respectively, thus indicating improvements in the financial results amounting to Rs.314,043,400 and Rs.4,767,839 respectively as compared with the preceding year. The increase of tax income in the year under review by a sum of Rs.394,126,433 had been the main reason for the improvement of the financial results of the Group. Despite the increase in the salaries and allowances by a sum of Rs.53,617,151 the increase of income by a sum of Rs.38,578,774 and the decrease of expenditure on income tax by a sum of Rs.20,269,877 had been the main reason for the improvement of the financial results of the Institute.

An analysis of the financial results of the year under review and the four preceding years indicated that the net profit of Rs.246,343,636 for the year 2011 had fluctuated annually and decreased to Rs.164,200,400 as at the end of the year under review. Nevertheless, depreciation on non-current assets and the taxes, despite the decrease of the contribution of the Institute in the year 2012 as compared with the year 2011, that had systematically increase from the year 2013 to the year 2015.

4. Operating Review

4.1 Performance

The following observations are made.

(a) The Courses income for the year under review as compared with the preceding year had increased by Rs.38,578,774 , that is , by 5.6 per cent whilst the direct expenditure had increased by Rs.48,983,785 , that is, by 21 per cent. As such the gross profit for the year under review as compared with the preceding year had been reduced by Rs.10,405,011 , that is, by 2.3 per cent. As such, the gross profit of 66.33 per cent for the preceding year for the year under review had reduced to 61.36 per cent.

(b) The publicity expenditure of Rs.49,619,890 for the year 2014 had been Rs.59,479,959 and an increase of the publicity expenditure by 19.87 per cent was observed. The comparative improvement of the Courses income had been 5.6 per cent.

(c) Except in the case of the Cadres at Kandy and Kurunegala, the number of students and the courses at other Centres including the Head Office as compared with the preceding year had increased. In the overall, as compared with the preceding year, 12 more courses had been conducted in the year under review and the number of students as well had increased by 626.

(d) Comparison of the Action Plan for the year under review with the performance revealed 24 courses planned had not been conducted whilst the number of students as well had decreased by 694. Even though the number of students participated in the courses conducted by the Colombo Head Office had exceeded the planned number by 100, the number of students of all other Regional Offices had been less than the planned number.

(e) The Advanced Diploma in Industrial Engineering Higher Diploma Course not included in the Action Plan had been conducted at the Colombo Head Office, with the participation of 52 students whilst 07 other courses not included in the Action Plan had been conducted at the Kurunegala, Galle and Kandy centres with the participation of 279 students.

4.2 Management Activities

The following observations are made.

(a) Action had not been taken even by 31 August 2016, for the disposal of 119 items of unusable computers and accessories of which the useful life had expired as at 31 December 2014 (except library books) but recorded in Register of Fixed Assets.

(b) Even though the assets should be revalued timely and disclose the fair value of assets in the accounts, the motor vehicles costing Rs.28,711,950 purchased from the year 2006 to the year 2010 fully depreciated but the use at present had not been revalued.

4.3 Uneconomic Transactions

In view of the deficits existing in the computer software installed by the Institute for accounting work, a new computer software had been purchased in the year 2013 for Rs.3,673,410 on the recommendations of the Information Management Division of the Institute without following the Procurement Guidelines. A sum of Rs.1,541,185 had been spent by the end of the year under review for servicing the software. Nevertheless, that software could not be installed in the computer system of the Institute even by the end of the year under review as it was not possible to correctly identify the income relating to the year, the inability to use it for the preparation of salaries, and the Fixed Assets Master. Further, the supplier company did not consent to rectify the deficits in the software identified before the expiry of one year from the introduction of the new computer software. Consequent to the breach of servicing agreement a sum of Rs.1,442,824 had been paid by 31 December 2015 to procure the services of another company.

4.4 Commencement of Projects on Lands / Properties not duly Vested

The following observations are made.

(a) Even though the Cabinet of Ministers had, at the meeting held on 17 October 2013, decided to vest the land situated at No. 120/5, Vidya Mawatha, Colombo 07, in the National Institute of Business Management as a free grant, the Institute had not received the legal title to the land even by 30 September 2016.

(b) Even though the Cabinet of Ministers had, at the meeting held on 07 November 2007, taken action to vest a land in the National Institute of Business for the commencement a proposed Educational Institution in the City of Galle, the legal title to that land had not been received by the Institute. The National Institute of Business Management had constructed a building at a cost of Rs.302,707,070 on this land by 31 March 2010 without obtaining the legal title to the land in writing. A sum of Rs.6,685,441 had spent on that building in the year 2015 as well.

4.5 Staff Administration

The following observations are made.

(a) The approved staff and the actual staff as at the end of the year under review had been 224 and 154 respectively and as such there were vacancies in 70 posts. Those vacant posts included 18 posts of Senior Consultant and the Senior Lecturer and Lecturer and the Legal Officer. Further, recruitment had been made on contract basics for 28 posts in the Executive Level and the Non-Executive Level.

(b) Even though the approved staff for the post of office Aide had been 26, seven office Aides exceeding that number had been recruited.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 the Draft Annual Report and the financial statements should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the National Institute of Business Management had presented the draft financial statements for the year ended 31 December 2015 only on 29 June 2016.

5.2 Corporate Plan

Even though the Corporate Plan for the years 2012 to 2016 had been prepared, the Corporate Plan for the years 2015 to 2019 had not been prepared as the former had not been revised annually.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the National Institute of Business Management. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls		Observations
(a)	Accounting	Non-rectification of the defects of the Accounting Software.
(b)	Assets Management	Assets had not been properly vested
(c)	Purchase Control	Existence of instances where action in terms of the Procurement Guideline had not been taken.