

## **National School of Business Management Limited - 2016**

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The audit of the financial statements of the National School of Business Management Limited (“the Company”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the 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 Democratic Socialist Republic of Sri Lanka.

This report is issued in terms of provisions in article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

### **1:2 Board’s Responsibility for the financial statements**

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board 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. 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 the risk 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 Company’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 Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

## 2. **Financial Statements**

### 2.1 **Opinion**

In my opinion, the financial statements give a true and fair view of the financial position of the National School of Business Management Limited as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Accounting Standards.

## 3. **Financial Review**

### 3.1 **Financial Results**

According to the financial statements presented, the operation of the Company for the year under review had resulted in a pre-tax net profit of Rs.88,976,022 as compared with the corresponding pre-tax net profit of Rs.517,449,033 for the preceding year, thus indicating a deterioration of Rs.428,473,011 in the financial results of the year under review. This deterioration is mainly due to decrease of income by Rs.59,643,830 and increase of staff cost, advertising expenses and interest expenses by Rs.275,340,606

Although the pre-tax net profit had decreased during the year under review, the value addition of the Company after taking into account the employee remuneration and depreciation for non-current assets was Rs.790,921,768 and the value addition of the previous year was Rs.1,059,019,611.

## 4. **Operating Review**

### 4.1 **Performance**

The main objectives of the Company are to provide world class education, training, development and research and to innovate educational products and services and delivery methods to serve the evolving needs of students and institutions in Sri Lanka. However, annual targets on Key Performance Indicators (KPI's) had not been set out by the Company. Therefore, it was unable to compare the actual performance with the expected targets in audit.

According to the information made available, the progress of the Company in some key areas is given below.

Areas	2012	2013	2014	2015	2016
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	Rs.	Rs.	Rs.	Rs.	Rs.
Income generated from Courses	381,848,973	582,371,274	782,648,252	1,138,195,911	1,078,552,000
Expenditure incurred for Advertisements	972,805	6,204,841	5,186,354	7,961,906	60,970,240
Number of Students Enrolled	2,212	2,364	1,979	2,080	2,617

## 4.2 Management Activities

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The buildings constructed by spending Rs.8.6 billion with the capacity to provide facilities to around 30000 students was declared open on 16 October 2016. However, according to the information made available to audit, the total number of students studying as at the end of the year under review was only 7,168. Hence, most of the building facilities in the Company had lying idled for a long period.

*The Vice Chancellor of the Company had stated in this regard that “the original plan with the construction of buildings to house nearly 30,000 students which aimed to be achieved in ten years at the end of year 2025. As per the forecasted numbers, NSBM aims to achieve 20,000 student populations in the year 2021.”*

## 4.3 Human Resources Management

The following observations are made.

- a) Although the actual cadre of the Company as at the end of the year under review stood at 54, an approved Cadre and Scheme of Recruitments and Promotions had not been made available at the Company.
- b) The salary of academic and non-academic staff had been increased by 50 per cent since the month of August 2016 with the approval of Board of Directors dated 18 August 2016. However, an approval thereon had not been obtained from the General Treasury as per paragraph 9.7 of the Department of Public Enterprises Circular No. PED/12 of 02 June 2003. It was further observed that, the salary increments for certain officers had been granted exceeding the limits approved by the Board of Directors.

## 5. Systems and Controls

Weaknesses in the following systems and controls were observed during the course of audit, thus special attention is needed in this connection.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Accounting	Un availability of a facility to separately identify the receipts and income for the year in the computer system. Hence, the adjustment entries had to be made manually.
(b) Cash Management	Lack of a proper methodology for segregation of duty over cash receipts, deposits, records keeping and reconciliations.
(c) Inventory Control	(i) Prevailing variances between the stock

balances shown in the computer system and the physically verified balances as at 31 December 2016. It was further observed that the system had not been properly updated.

- (ii) Non-maintenance of the Inventory Register as per the finance manual of the Company.