

National School of Business Management Limited – 2017

The audit of financial Statements of the National School of Business Management Limited for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of Income and 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. This report is issued in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations on the above financial statements appear in this report.

1.2 Board’s Responsibility for the Financial Statements

The Board of Director (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 judgments, 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 financial statements.

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

The company had paid a sum of Rs.112,000,000 to the Urban Development Authority as lease premium for 30 years lease period in 2012 on behalf of the land where the company is located. The lease premium had been paid based on the valuation of an Internal Valuation Committee subject to settle the difference if any by either party with comparison to the Government Chief Valuer’s valuation and the Internal Valuation and the land had been

accounted as lease hold land. However, a lease agreement in this regard had not been entered into between the company and UDA even up to the date of this report. Further, the economical useful life of the building constructed in this lease hold land had been treated as 50 years even though the lease period is 30 years.

2 Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion paragraph, 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 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on Other Legal and Regulatory Requirement

As requested by Section 163(2) of the Companies Act No.07 of 2007, I state the followings:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion:
 - Except for the matters described in basis for qualified opinion paragraph, I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company
 - The financial statements of the Company comply with the requirement of Section 151 of the Companies Act No. 07 of 2007.

3 Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the company for the year under review had resulted in a pre-tax net loss of Rs.416,276,107 as against the corresponding pre-tax net profit of Rs.88,976,022 for the preceding year, thus indicating a deterioration of Rs.505,252,129 in the financial results of the year under review as compared with the preceding year. Although the income of course fees had increased by Rs.981,716,959 increase of salaries, advertising, depreciation, and interest expenses and foreign remittances aggregating to Rs. 1,421,694,053 had mainly affected to this deterioration.

Although the pre-tax net profit had decreased during the year under review, after taking into account the employee remuneration and depreciation for non-current assets the value addition of Rs.377,123,442 for the year 2015 had decreased to Rs.1,059,099,611 in the year 2016 and it had increased again up to Rs.210,780,232 in the year under review.

4 Operating Review

4.1 Performance

4.1.1 Planning

The Company had not set out the annual targets on Key Performance Indicators and an action plan for the year under review had not been prepared by showing physical and financial targets on the main activities of the Company.

4.1.2 Operating and Review

- (a) It was unable to compare the actual performance with the expected targets due to non- availability of annual targets.
- (b) Even though the Company had incurred an expenditure of Rs.119,962,476 for advertisements during the year under review, any promotion had not been done for the enrollment of foreign students.
- (c) According to the information made available, 6,363 certificates had been awarded to graduates and post graduates. Out of 13,062 of total registered students 730 students represent 5 per cent had given up the courses from the inception of the company up to the end of the year under review.

4.2 Utilization of Assets

The following observations are made.

- (a) Although the school of engineering had consisted with 02 design studios, 06 lecture halls, 06 computer laboratories with the capacity to provide facilities to around 684 students, the total number of students studying as at 30 September 2018 was 182 only.
- (b) Out of 250 rooms available in the students' hostel, 23 air conditioned rooms which was reserved for foreign students had not been utilized since the commencement.
- (c) A fixed assets register had not been properly up dated including the value, additions and disposals of each items and an inventory had not been maintained by each sections of the Company.
- (d) The disposable items which were identified by the Board of Survey Team had not been disposed even up to 30 September 2018.

4.3 Human Resource Management

The following observations are made.

- (a) According to the information made available, the actual cadre of the Company stood at 156 as at the end of the year under review. However, specific cadre had not been made available at the Company and the Company had not decided the number of positions by identifying the activities and the capacity.
- (b) The Scheme of Recruitment had not been approved by the appropriate Ministry with the concurrence of the Department of Public Enterprises of General Treasury as per the Paragraph 9.3.1 of the Department of Public Enterprises Circular No PED/12 dated 02 June 2003.
- (c) A salary increment of 50 per cent for the academic and non-academic staff from August 2016 had been approved by the Board of Directors in the meeting held on 18 August 2016. However, the approval had not been obtained from the General Treasury as per Paragraph 9.7 of the Department of Public Enterprises Circular No PED/12 dated 02 June 2003. It was observed in audit that the salary increments for certain officers had been granted exceeding the board approved limits.

5 Accountability and Good governance

5.1 Procurement and Contract Process

The following observation is made.

In terms of the paragraph No 4.2.1 of the Government Procurement Guidelines, a Master Procurement Plan and a Detailed Procurement Plan had not been prepared by the company according to the format provided by the Guidelines.

6 Systems and Controls

Deficiencies observed in the systems and controls of the company were brought to the notice of the chairman of the company from time to time. Special attention is needed in respect of the following areas of control.

Control Area	Observations
-----	-----
Human Resource Management	Cadre positions had not been identified and approved.
Asset Management	Non - maintenance of fixed asset and inventory registers and underutilization and idle assets were observed.