

National Institute of Social Development – 2017

The audit of the financial statements of the National Institute of Social Development for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, 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 provision in Article 154 (1) of the Constitutions 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. Detailed Report in section 13 (7) (a) of the Finance Act was issued to the Chairman of the Institute on 31 August 2018.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 misstatement.

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 that 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 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-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 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 in 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 2017 and its financial performance and its 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

As useful lifetime had not been reviewed annually in respect of non-current assets in terms Section 65 of Sri Lanka Public Sector Accounting Standard 07 even though 2 vehicles costing Rs. 3,000,000 had been fully depreciated but are being further used. Accordingly, the estimated error arisen had not been rectified as per Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The expenditure amounting Rs.435,850 incurred for the internal telephone system by the institute had been accounted as recurrent expenses instead of it accounting as fixed asset expense, as such depreciation provision of Rs.50,690 had avoided for the year under review and the deficit of the year had been overstated by Rs.385,160.
- (b) Arrears contribution money of the Employees Trust Fund from the period January 2006 to December 2014 amounting to Rs.1,120,291 had been paid in the year under review. Even though these payments should be adjusted to the Accumulated Fund, as adjustments of the preceding years due to the reason of this expenses being brought to account as an expenditure of the year under review the deficit of the year had been over stated by a sum of Rs. 1,120,291.
- (c) Receivable course fees from 22 courses relating to the year under review amounting to Rs. 4,595,450 had not been accounted.

- (d) A sum of Rs 5,862,944 provided from the Treasury as capital Grant for purchasing assets, instead of stating as cash inflows under the financial activities of the cash flow statement had been shown as difference of only a sum of Rs.2,756,154 under the Capital Grant Account under the working capital changes.
- (e) Amortization Rs.3,106,790 for the year under review adjusted to the Financial Performance Statement instead of deduct it from deficit of non financial item in cash flow statement had been prepared the Cash Flow statement set off by the Capital Grant Account.

2.3 Non Compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliance with laws, rules and regulations were observed in audit are given below.

Reference to Laws, Rules and Regulations etc. -----	Non-Compliance -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation .751	All goods and books obtaining to the government institutions immediately should enter into the inventory register although 700 publications printed value of Rs.336,000 for the year under review, even though received books had not been entered in the stock register at the stores.
(b) Treasury Circular No. IAI/2002/02 of 28 November 2002	Fixed Assets register had not been maintained for computer accessories and software value totaling to Rs.5,987,625.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating result of the Institute for the year ended 31 December 2017 had resulted in a deficit of Rs.10,443,422 as compared with the deficit of Rs. 2,739,560 for the preceding year, thus observing deterioration of Rs.7,703,862 in the financial results in the year under review as compared with the preceding year. The increase of the salaries and wages by sum of Rs.7,729,138 and administrative and establishment expenses by sum of Rs.6,131,072 had been the main reason for the above deterioration.

In analyzing the financial results of 04 preceding years and in the year under review, even though a financial deficit had indicated year 2013 and year 2014, it had been a financial surplus in the year 2015 and it had again indicated a financial deficit in the year 2016 and 2017. However, in adjusting again personal emoluments and depreciation on non- current assets, the contribution of the Institution amounting to Rs.18,763,348 by the year 2013 had continuously improved up to the year 2015 even though it had been decreased up to Rs.40,362,184 in the year 2017.

4. Operating Review

4.1 Performance

4.1.1 Planning

The major responsibility of the Director Board to prepare Corporate Plan to manage the short term and long term vision of the activities of the Institute for the minimum period of three years but the Corporate Plan had not been prepared by the Institute.

Even though the strengths (13) and weaknesses (05) of the institute had been identified in the Corporate Plan and even though a corporate plan should be prepared by evaluating them and by updating those plans for the forthcoming years, action had not been taken accordingly.

4.1.2 Activity and Review

Following observations are made.

(a) Training Division

- (i) The Diploma in Counselling courses conducted in head office and regional branches by Sinhala, English and Tamil medium and the training had been received annually 450 Counselling Diploma Holders The institute did not carried out a follow up on whether diploma holders who obtained this training were provided their knowledge to the society.
- (ii) The number of students' admission and number of course complete students regarding the courses handling by the training division had not been included in the Performance report presented for year under review.

(b) Social Development Policy, Research and Publication Division

This division carries out preparing the social development policies, conducting researches and launching publications and a sum of Rs. 1,000,000 had allocated for 11 programmes under the Action Plan of the year under review. The following observations were made in this connection.

- (i) A sound of Rs.499,264 had spent for Printing 720 research books and scholastic magazines for the year under review but such books had not been distributed to the relevant divisions even as at until 01 July 2018. Also the book freezing festival not being held so the provision of Rs.140,000 had been existed without utilising.
- (ii) The research division included only the courses offered at each of the Institute's Business Letters, but its courses did not include students' views on the progress perspective and course work they had obtained.

- (iii) Preparing social development policies, conducting research had been denoted as the duties of this division and even though six Research Officers and six Assistant Research Officers who engaged the service during the previous year, the officers had been carried out only the survey of a Kidney disease patients from the President Secretary Office and not identify the research done for the year and did not include in to the action plan.

4.2 Management Activities

Following observations are made.

- (a) Internal Circular had not been issued regarding the borrowing books from the library of the institute and 229 lending books by 38 officers of the institute within the period of year 2015 to 2017 had not handed over to the library. In addition, this delay had not been aware the officers who had obtained the books.
- (b) During the year under review, the institute had allocated 03 lecture halls in 04-storied building for renting out Rs. 7,140,000 annual rentals for the training and research unit. However, in the given period as well as in the year 2018, the classrooms due to the lack of record book had being maintained so lecture hall facilities had continuously received, was not observed.

4.3 Staff Administration

The approved cadre of the institute as at end of the year under review was 137 and actual cadre was 121 thus 16 posts were vacant. The following observations are made.

- (a) The post of Professor of the institution had been vacant for more than 4 years from since the year 2014 upto the date of the audit on 20 July 2018. However, this recruitment was delayed even as at 20 July 2018
- (b) Even though three senior trainee officers had approved by the Department of Management Services on the letter No. DMS/E/3/20/07/159/2 dated 24 June 2010, two vacating posts were observed. The officers who have been in training for the training sector in the training division in order to conduct training programs in the training division and to train and train them should carry out the training and implementation of programs. However, due to vacancies in this position Training courses immediately. It was also observed that instances were not sustained. 6 ½ years programme planning implementation and train of all training courses conducted by the training department in the training section, it was also observed that due to this vacancy the training courses could not be held without delay.

5. Sustainable Development

5.1 Achieving the Sustainable Development Goals

All statutory institutions should be functioned in accordance with the 2030 Agenda for sustainable development adapted by the United Nations and the National Institute of Social Development had aware as to how to act with respect of activities under their per view for the year under review.

6. Accountability and Good Governance

6.1 Budgetary Control

Variations ranging from 50 per cent to 75 per cent were observed between budgeted income and expenditure that the budget had not been used of as an effective instrument of management control.

6.2 Unresolved Audit Paragraph

The Committee of Public Enterprises held on 20 August 2014 under the Committee Order No.10 did not carry out a research into the reasons for Poverty among the people of the country and the order of submit the report had not been implemented up to the year under review.

7. Systems and Controls

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

Areas of Systems and controls -----	Observations -----
(a) Fixed assets	Fixed assets register not being maintained for computer accessories and software.
(b) Staff administration	Delay in filling the vacancies.
(c) Corporate plan	Institute not being prepare the Corporate plan.