

## **National Institute of Education - 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Institute of Education for the year ended 31 December 2018, comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971 my comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Centre ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Centre or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Centre financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Centre is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Centre.

## 1.4 Auditor's Responsibility for the Audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the

Institute , and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute ;
- Whether the institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

**1.5 Financial Statements**  
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**1.5.1 Internal Control over the preparation of financial statements.**  
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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

**1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards**  
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Following observations are made.

<b>Non Compliance with reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) In the Cash Flow Statement which should be prepared accordance with the standard No 02, payment of gratuity and accrued expenses in the changes of working capital amounting to Rs.5,547,436 and Rs.3,026,822 respectively have been overstated. At the same time, net cash flow from financial activities should be amounted to Rs.64,483,552. But it has been stated as Rs.61,456,730 so as understated by Rs.3,026,822 in the financial statement.	The error occurred due to the avoiding of the journal No.48 which was debited to the account of provision for gratuity in respect of gratuity for the year 2018 and accrued expenses overstated will be corrected. Other difference was occurred when totaling of balances of financial activities in the cash flow due to the avoidance of amounted to Rs.3,026,822 in Bond Violation Fund will be corrected.	Cash flow should be prepared accordance with the accounting standard.

- (b) According to the clause No 47 (b) of the standard No.03, the error in connection with the opening balances of assets and liabilities related to the past should be restated by correcting them as to be effected to the past, but in case of errors came up in previous years this provision has not been followed. As observed by the auditors, Accounting Standard actions will be taken to correct those matters before the considering of opening balances for the year 2019. should be follows.
- (c) As per the clause of No. 47 of the standard No.07, while assess the value of an asset if fair value of an asset is materially varied from its bearing value revaluation should be done. But assets of the entity have not been revalued after the year 2008. Process of the revaluation of assets has been started. Before end of July 2019, plan to finish these affairs. Accounting Standard should be followed.

### 1.5.3 Accounting Deficiencies

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Following observations are made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) Money amounted to Rs.10,000,000 received from the Ministry of Education for the year 2017 accounted as income for the year under review and amounting to Rs.58,000,000 received for the year 2018 have not been accounted as the income of the year under review.	Money amounted to Rs.10,000,000 received from the Ministry of Education on 31 December 2017 have been accounted in the bank account in January 2018. That error will be corrected in the year 2019 and money amounted to Rs.58,000,000 received from the Ministry of Education on 31 December 2018 included in the bank statement of January 2019 that amount have been omitted from the Financial Statement for the year 2018. This error will be corrected in the year 2019.	Income of the year should be identified correctly and accounted.

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| (b) | An amounting to Rs.6,000,000 has been transferred among two current accounts and this accounting treatment has been done by adding only to one account but not deducted from the other account.  | An amounting to Rs.6,000,000 have been transferred to current account number 607624 from the current account number 607628 will be done through only to credit entry has been passed through the account of transfer of fund, showing overstated by Rs.6,000,000 as at 31 December 2018 will be corrected. | Income should be corrected and accounted.         |
| (c) | Interest on Treasury Bills amounting to Rs.7,245,228 received for the next year have been accounted as income of the year and receivables of interest for the year under review, so as revenue and assets have been overstated in the year.              | It will be corrected in the near future.   | Action should be taken to account correctly.      |
| (d) | Gratuity payable and surcharge on gratuity for the period from year 2006 to 2015 should be amounted to Rs.68,757,867. Nevertheless as the payable for gratuity amounted to Rs.72,168,213 have been stated in the accounts as overstated by Rs.3,172,820. | Correct payable for gratuity due balance amounted Rs.68,757,867 and action will be taken to correct this amount in the accounts.   | Action should be taken to account in correct way. |
| (e) | A recurrent grant amounted to Rs.5,000,000 have been accounted as a capital grant and resulted to understate the surplus and the capital grants for the year under review.   | Both the amounts received for recurrent and capital expenditure in June 2018 have been credited to the bank, so as overall total amount have been accounted as capital receiving for the year. This error will be corrected in the Financial Statements as under the correction of errors.                 | Action should be taken to account in correct way. |

#### 1.5.4 Unreconciled Control Accounts or Records

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Following observations are made.

Item	As per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
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	Rs.Million	Rs.Million	Rs.Million		
(a) Non Reconciliation of the opening balance of Accumulated Fund and Inventory Account with the closing balances in the financial statements of the previous year.	158.58	230.96	72.38	This error was occurred due to a problem with the entering of opening balances to the computer software.	Action should be taken to correct.
(b) Non reconciliation of the closing balances of Accumulated Fund Account and Bond Violation Account with the balances presented in the financial statements.	66.72	212.71	145.99	This error will be corrected.	Action should be taken to correct.
(c) Non reconciliation of the balance of Inventory Account with the balance in the schedule.	48.96	49.70	0.74	Balance of the inventory account is correct as per the ledger. Reason for the difference in the schedule is that an error of computerize those transaction for the preparation of the schedule.	The balance representing in the financial statement and the schedules should be similar each other.

### 1.5.5 Documentary Evidences not made available for Audit

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Following observation is made.

<b>Item available</b>	<b>Amount</b>	<b>Evidence not</b>	<b>Management Comment</b>	<b>Recommendation</b>
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	<b>Rs.Million</b>			
Library Books	45.03	A schedule for those books mentioned as the opening balances prior to the year 2008.	Expecting to prepare a schedule after make a mechanism soon to verify the content of consignment of those books.	Action should be taken to quantify the library book, and to reflect in the accounts.

### 1.6 Accounts Receivable and Payable

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#### 1.6.1 Receivables

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Following observation is made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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Actions have not been taken to recovery of dues amounted to Rs.346,040 from the Sundry debtors remaining as due for number of years.	Quick actions are being taken to recovery of those due balances.	Quick actions should be taken to recovery of those dues.

#### 1.6.2 Payables

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Following observation is made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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Deposits amounted to Rs.8,417,315 is remaining as unsettled have been included in the deposits account amounted to Rs.28,187,054 which is unsettled more than 5 years.	A balance amounted to Rs.1,713,497 exceeded five years out of the total deposit value has been shown under the payable balance which were confirmed that to be paid. Balances of creditors exceeded more than 5 years will be checked and taken to revenue for the year 2019.	Action should be taken to quickly settle.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

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Following observations are made.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Clause No 1.2 and 6.1 in the chapter No. viii of Establishment Code.	Overtime rate should be calculated base on the monthly combined salary. (except allowance) Nevertheless based on a instruction letter No D/S/811/617/94 dated 22 March 1995 issued by an Assistant commissioner of labour, Overtime have been calculated base on the gross salary since year 2016 and total amount of Rs.86,894,821 consisting overtime arrears for the year 2016 and 2017 amounted Rs.27,301,283 and Rs.59,593,538 as overtime for the year 2018 and have been paid during the year under review without getting Treasury approval.	Based on the order given by the letter issued dated 22 March 1995 by an Assistant Commissioner of labour, payment of overtime have been calculated as considering the basis of one and half hour for one hour. Including the allowance of cost of living for the staff of National Institute of Education who entitled to have overtime. Furthermore, in the order given by the Assistant Commissioner of Labour on 22 March 1995 and 01 August 2018 and having the approval of the council of National Institute of Education was based on those payment of overtime.	- A formal approval from the Treasury should be obtained for the payment of overtime on gross salary.
(b) Circular No 01/2018 dated 19 March 2018 issued for the management asset, of Ministry of Finance and Media.	According to the circular sales value of motor vehicles of government entities should be credited to the consolidated	As per the circular No 01/2018 issued by the Ministry of Finance and Media dated 19 March 2018 for the management of asset, the sales value of	Circular should be followed.



fund. But in case of sales of such vehicles amounting to Rs.2,524,000 this requirement has not been followed.

- (c) Circular No 257 issued by the Department of Management service approved in the year 2013.
- Other earnings in addition to the salary of the staff of the entity should not be executed 50 percent of the basic salary. In contrary to this requirement, Rs.4,501,586 have been paid for 48 number of officers for the period of the year 2014 to 2017 and Rs.3,185,113 for number 37 officers for the year 2018 have been paid as allowances.
- The business of the National Institute of Education can be identified as similar to a university and recruitment problems also available. Accordingly appropriate salary scales which is suitable for the restructured National budget proposal has been suggested. This suggestion has not been implemented up to now resulted that staff do not like to come to duties on Saturday, Sunday and holidays and due to the absence of their assistant, external resources persons also not be able to obtained caused to come forward severe crisis. Due to this matter problems have been come up when calculation of the maximum limit of 50% of the basic salary and cash department has calculated the amount to be charged from each person and necessary action are being taken to inform to each officer in this regard and they are claimed in installment basis from the officers based on the agreement with them.
- Payment should be made as per the circular.

## 2. Financial Review

### 2.1 Financial Result

The financial g result of the year under review amounted to a surplus of Rs.21,197,788 and the corresponding surplus in the preceding year amounted to Rs.155,052,077 Therefore a deterioration amounting to Rs.133,854,289 of the financial result was observed. The reasons for the deterioration are increased the expenditure by Rs.88,134,612 and decreased the deposit income by Rs.284,293,622 and income from examination fees by Rs.222,470,001.

### 2.2 Trend Analysis of major Income and Expenditure items

The deposit income for the year 2017 amounted to Rs.313,670,037 have been decreased up to Rs.29,376,415 by 91 percent in the year 2018 and income from course fees and examination fees for the year 2017 amounted to Rs.320,987,832 have been decreased up to Rs.98,517,831 by 69 percent in the year 2018. At the same time expenses on personal emoluments for the year 2017 amounted to Rs.334,569,148 have been increased up to Rs.389,670,485 by 16 percent in the year 2018. Operational expenses amounted to Rs.56,694,055 for the year 2017 has been increased up to Rs.96,751,898 by 71 percent in the year 2018.

### 2.3 Ratio Analysis

When analyze the working capital management, current ratio remained at 3.7.1 in the previous year has been changed to 3.5.1 in the year under review and quick asset ratio remained at 3.5.1 in previous year changed to 3.3.1 in the year under review. Out of the current asset, 80 percent represented Treasury Boards and bank current account balances . Accordingly huge number of assets have been remained in the liquid assets.

## 3. Operational Review

### 3.1 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Machineries of the printing press are older more than 30 years so as though a required to purchase of new digital printing machine and other 12 items on 20 <sup>th</sup> March 2017. The entity has been advertised by spending Rs.74,370 for purchase of Offset machine but these items have not been purchased.	Because of the machines available in the printing press are older more than 30 years, made specifications and evaluated them and submitted to the procurement section. But only one supplier has bided and procurement committee has rejected the bid.	This printing press of the entity should be used effectively.

Even though in the year 2018 an amounting to Rs.5,445,741 have been paid as overtime for the staff, printing requirement has been got done by outside printers and amounting to Rs.9,129,735 have been paid for this job.

Due to the scarcity of training staff and the available machine are very older, and the the fact that the number of printing orders are very large amount, all the printing requirement cannot be fulfilled by the NIE press. Maximum capacity of the press is used and the balance work are done by the outside printers.

(b) Number of 243 printing jobs have been placed by different parties out of those jobs number of 25 jobs have not been completed even by end of year 2018. At the same time out of the completed works during the year amounted to 272, and number of 54 jobs are raised in the years 2014, 2016 and 2017. A plan for the printing matter, has not been prepared and not been completed in a specific time period.

Different departments have been placed number of 243 printing orders in 2018 and, only number of 197 orders have been completed due to the absence of trained staff and the machine are older that 30 years. These machines have to be repaired time to time resulted to inability of complete those orders as they planned. In addition to that, the shortage of trained machine operators is also affected to this situation.

Printing matters should be completed during to period.

(c) Though an action plan has been prepared in the year under review, instances have been identified as this action plan was not functioned formally. According, though the preparing of teacher guides have been planned for 4 subjects by 3 departments teacher guides for 3 subjects have not been prepared. At the same time resources books related to 7 subjects have been planned to prepared, but resources books related to 6 subjects have not been prepared at the end of the year under review. Only those resources books for 4 subjects, are the books have been planned to complete during the year 2017.

Work book of grade 6 Sri Lanka 2<sup>nd</sup> language are being printed and because of the syllabus had been modified in number of times, the Approval of the council for the teachers for grade 13 have been obtained in 19 April 2018, by 03 May 2019 first copy has been received and teaching voice series of grade 12 and practical book for home science and glossary of grade 12 will be submitted to the academic affairs board on June 2019.

Progress should be achieved as per the plan.

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| <p>(d) The entity has been held 20 exams for the year 2018 and results of 9 exams there on have not been issued only at 31 March 2019. Furthermore, there was a delay to issuing of result and spent a time period nearly one year for 3 exams.</p> | <p>The Final written exams are hold by the department of examination as well as other assessments are done by the relevant department themselves. Those two part of results are amalgamated and prepare the result sheet. Reason for the delay of issuing result is to receiving of these categories of marks and result of all courses are issued by way of GPV/GPA from this year. After holding exams, there were mismatch between the procedures in the process of issuing result or preparing result, caused to a delay and further to that reason. The results had been submitted to the Academic Affairs Board and the council and as per the advice of them had to be amended and approved by them too caused this delay.</p> | <p>Result should be issued without delay.</p> |
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### 3.2 Procurement Management

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**Following observation is made.**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>According to the clause No 5.3.11 of procurement guideline Bid bond should be signed from all the bidders. But in the cases of purchase of Air condition plants for Computer Lab incurred Rs. 765,062 and for the inclusive department incurred Rs. 1,277,460, the bid bond has not been signed for this transaction.</p>	<p>By a mistake a bond has not been signed, but this purchase process has been successfully completed up to now, and in the future biddings, bonds will be signed.</p>	<p>Procurement procedure should be followed.</p>

### 3.3 Defects in Contract Administration

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Following observation is made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Amounted to Rs.1,200,949 as consultancy charges of the preparing planning estimates for the construction of Toilet system in the three storied building of the entity, which was estimated cost of Rs.27,848,100 has been paid 10 years back. But the construction have not been commenced even up to 31 December 2018.	The letter of awarding contract for the construction of Toilet system in the 3 storied building at the entity has been sign on 14 November 2018 and letter of donation has been signed on 21 December 2018 and agreement there on has been signed on 29 January 2019. By the time works are being done and physical progress is 40 percent	Construction work should be done quickly.

## 4. Accountability and Good Governance

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### 4.1 Budgetary Control

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Following observation is made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Variance in the range of 5.7 percent to 3,303 percent between actual, and budgeted amount of recurrent expenditure can be identified. So as the process of budgetary control has not been used as an effective tool of management controls.	When preparation of budgets, accurate calculation are made and there after consider the changes and amendments are made. But due to the accounting errors large variances are came up. Attention of the department of Planning and finance are drawn for this matter.	When prepare the budget priorities that should be done annually should be identified and try to accomplish as expected in the specified time period.

### 4.2 Sustainable Development Goals

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Every Government Institution should at in terms of the 2030 “Agenda” of the United Nations for Sustainable Development Act, No. 19 dated 03 October 2017 and through circulars. However, the National Institute of Education had not been aware of the manner in implementing the functions	Necessary action will be taken in future.	Should be follow the agenda of 2030 for Sustainable Development of United Nations.

that come under its scope, relating to the year under review. However, action had not been taken to identify the Sustainable Development Goals, targets relating to those functions and focal points to reach those targets and indices for measuring the achievement of targets.