

**1.1 Qualified Opinion**

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The audit of the financial statements of the National Institute of Social Development for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of changes in equity and 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 provisions of the 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 effect of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Institute as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Public Sector Accounting Standards.

**1.2 Basis for Qualified Opinion**

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My opinion is qualified based 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 Institute's 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 Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Institute 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.

#### **1.4 Auditor's Responsibilities 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 Institute'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 Institute'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 Institute 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

### 1.5.1 Internal Control over the preparation of financial statements

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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

### 1.5.2 Accounting Deficiencies

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	A sum of Rs.2,962,450 spent for 16 degree courses completed in the preceding years and course fee income of Rs.3,737,250 received during the year in respect of 07 degree courses completed during the periods 2014-2016 and 2016-2018 had been included in the annual statement of financial performance without being adjusted those sums to the accumulated surplus as previous years adjustments. Therefore, the surplus of the year under	It had been stated that the overstated income would be corrected in the preparation of financial statements for the 2020 year of accounts.	Income should be correctly identified and brought to account.

review had been overstated by Rs.774,800 in the financial statements.

- (b) Course income of Rs.8,806,825 received by district offices for 13 diploma courses in counseling conducted during the year under review had been omitted from accounts. Therefore income had been understated by that amount in the financial statements.
- This omission had caused due to errors in the identification of course income.
- Total income for the year should be correctly identified and brought to account.

### 1.5.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulation 770	Unserviceable stores of the Institute should not be recommended for their sale or destruction unless it is satisfied that the articles are not of use to other Government Departments. However, this Institute had auctioned 42 items of office equipment and 22 air conditioners worth Rs.4,077,000 without conducting a board of survey.	Once the decision was taken to shift the National Institute of Social Development to the new premises at Seeduwa on 16 December 2019, a special board of survey of the Institute was conducted in November 2019. The unserviceable stores and destructible articles identified at the board of survey were auctioned and destroyed through a committee. Thereafter, the price was fixed by the pricing committee.	In the disposal of goods, provisions of the Financial Regulations should be followed.
(b) Section 13.3 of Chapter ii of the Establishment Codes of the Democratic Socialist Republic of Sri Lanka.	The post of Director General of the National Institute of Social Development remained vacant from 07 July 2018 and no permanent officer had been appointed for that post up to 30 November 2020.	Although applications for the post of Director General were called for by the Line Ministry through newspaper advertisements and gazette notifications in August 2019, all the recruitments of the Government had been suspended and as such, it has not been possible to appoint a permanent officer for the post.	Action should be taken to appoint a permanent officer to the post of Director General of the Institute.

## 2. Financial Review

### 2.1 Financial Results

The operations of the Institute for the year under review had resulted in a deficit of Rs. 5,626,205 as against the surplus of Rs. 9,915,227 for the preceding year, thus observing a deterioration of Rs. 15,541,432 in the financial results. This deterioration was mainly due to decrease in other income, increase in personal emoluments and administration expenses and increase in expenditure on courses.

## 3. Operating Review

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Three hundred and fifty five students had been admitted under 4 batches from the year 2016 for the 4 years degree course in social works conducted by the Social Service College and due to the strikes launched by the students, class room lecturers and examinations had not been conducted. Likely, the number of students of the courses too had decreased to 282 by 31 December of the year under review.	<p>Students continued the strike nearly a period of 150 days based on several demands and the students were explained on the impact of these activates.</p> <p>The lecturers that the students missed during the course of their strike were covered by increasing the number of lecture periods and in addition, lectures were conducted under online method to cover the syllabus of the course of the students.</p>	Administration should be carried out so as to ensure continuous academic activities of the students.

### 3.2 Underutilization of Funds

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Even though provision of Rs.16,798,000 had been made for the conduct of 06 master degree courses on social works of the Social Service College during the year under review, only 04 of those courses had been conducted. Accordingly, a sum of Rs.12,334,944 or 73 percent remained underutilized.	Although plans were drawn to conduct 06 master degree courses on social works of the Social Service College, students could be admitted only for 04 of those courses.	Action should be taken in accordance with the plans.
(b) Despite being made provision of Rs.132,800 to grant bursaries for 140 students, Rs.750,000 for giving	Since the students had boycotted class room lectures during the relevant period, bursaries amounting to	Action should be taken to ensure the optimum

vocational development education training for 500 students, Rs. 5,141,600 for curricula revision on Social Works programmes and Rs.1,000,000 for the follow up programme on the progress of the students who had completed the courses, those programmes had not been implemented. Therefore, the total provision of Rs.7,024,400 made for the above programmes had been saved.

Rs.132,800 allocated for 140 students were not paid. Although plans had been drawn to enroll 500 students during the relevant year, only 127 students who had passed the admission tests had been enrolled. Further, the amount allocated for the curricular revision was saved due to employing a panel of internal lecturers for the curricular revision and as it was not possible to carry out follow up on the progress of the students due to their involvement in the class room strike, the relevant amount of Rs.1,000,000 had not been spent.

utilization of provisions allocated for the students.

(c) Although provisions of Rs.4,875,375 had been made for the conduct of 06 Diploma courses in Counseling 2019/2020 in the training centres at Kilinochchiya, Thalawa, Puttalama and Ratnapura, Colombo those courses had not been conducted. Accordingly, the total provision had been underutilized. As publicity on these programmes had not been given through adequate and formal awareness programmes, an adequate number of students could not be enrolled and it had resulted in the above situation.

Although plans had been drawn to conduct 06 Diploma courses in Counseling for the year 2019/2020 by the Training Division, such courses could not be conducted during those years due to not participating sufficient number of students for those courses.

Attention should be drawn on raising awareness on the courses conducted at the regional training centres.

### 3.3 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) There were 19 vacancies in the Institute as at 30 November 2020 comprising 02 posts of Senior Lecturer, 07 posts of Lecturers (I and II), 01 Senior Training Officer, 04 posts of Research Officers II, I and 03 posts of Research Assistants and 02 posts of English Instructors and it had been an impediment to achieve the prime objective of the Institute to conduct training courses.</p>	<p>Even though applications were invited on 12 September 2019 to make recruitments to these posts, recruitments could not be made due to cessation of all the Government recruitments. Likely, according to the instruction of the Council given on May 2020, all the recruitments were revised according to the new scheme of recruitment and forwarded to the Department of Management Services for approval.</p>	<p>Recruitments to these posts should be expeditiously made to ensure the optimum maintenance of academic affairs of the Institute.</p>

- (b) Out of 19 posts financial and administration divisions of the Institute, 09 posts had fallen vacant of which the 02 post of Translator and the Audio Visual Technician had been in vacant over a period of 10 years.
- Action will be taken to fill all the vacancies of the Institute once the new scheme of recruitment is approved.
- Recruitments for the vacancies should be expeditiously made to ensure proper maintenance of financial and administrative affairs of the Institute.