

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the National Institute of Education for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, 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 the provisions of the Finance Act No 38 of 1971 and the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Institute as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

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

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 determines 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 of the Institute.

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

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 audit 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 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 audit 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 audit 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 had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observation on Preparation of Financial Statements
1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
(a) Although according to Sri Lanka Public Sector Accounting Standard 1, financial statements should be prepared on accrual basis, it was revealed in the sample test of two income subjects, the income of the year had been recognized on cash basis. As such, the income and receivables of the year under review had been under calculated by Rs.6,416,320. Further, an amount of Rs.48,634,500 refunded in the year under review from the course fee income received in the year 2022 has been adjusted to the course income of the year. As such, the excess expenditure over the income of the year had been overstated by that amount.	Course income and fixed deposit interest income and other income were accounted for on cash basis. Thus it has been disclosed in Accounting Policy 1.9.1 that revenue had been recognized on cash basis.	According to Sri Lanka Public Sector Accounting Standards, all income should be accounted for on accrual basis.
(b) According to paragraph 14(b) of Sri Lanka Public Sector Accounting Standard 07, buildings worth of Rs.101,399,997 completed during the year 2021 had been accounted under work in progress instead of accounting as property, plant and equipment.	That this total amount has not been capitalized since the final bill has not yet been paid.	According to Sri Lanka Public Sector Accounting Standards, the construction should be capitalized from the date it was ready for use and depreciation should be started from the date it was put into use.
(c) According to paragraph 09 (d) of Sri Lanka Public Sector Accounting Standard 09, assets available in the process of production for sale or distribution should be identified as stocks but stock items worth of Rs.14,517,150 had been shown under work in progress in the financial statements without a such identification.	That it has been included in the work-in-progress account under non-current assets by omission.	According to Sri Lanka Public Sector Accounting Standard, assets in process of production for sale or distribution should be identified as stocks.
(d) According to Sri Lanka Public Sector Accounting Standard 11, although capital grants should be accounted as income in the year of receipt, regarding a sum of Rs.47,239,551 received in the year under review and a sum of Rs.2,426,922,883 received in the previous years had not been dealt with in the same way.	Credited to capital account by omission. That this error will be rectified during the preparation of accounts in the year 2024.	In accordance with Sri Lanka Public Sector Accounting Standards, inflows of resources from a non-exchange transaction recognized as an asset should be identified as a revenue.

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| (e) | According to Sri Lanka Public Sector Accounting Standard 17, segment revenue and expenses should be identified and financial statements should be prepared, but it had not been done accordingly. | In accordance with the Accounting Standard 17, action will be taken to prepare separate accounts to enable to see separate profit, income and expenses of the Department of Printing and Publication and the hostel and noted to disclose in the final accounts of 2024. | Segment financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards. |
| (f) | According to Sri Lanka Public Sector Accounting Standard 19, the Actuarial Valuation Method should be used in the calculation of employee gratuity benefits, but the institution had not followed the requirement of the standard. In calculating the provision for gratuity related to the year under review based on the service period of the institution the service period of 77 officers had not been shown correctly, as such, the gratuity expense of the year and the balance in the gratuity provision account had been understated by Rs.4,824,483. | This gratuity provision balance has been understated due to an error caused by not entering the correct information in the system including the period of service, date of appointment and other information during the confirmation of the employees recruited on casual basis. | As per Sri Lanka Public Sector Accounting Standard, the Actuarial Valuation benefit method should be used in the calculation of employee gratuity benefits. |

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The hostel building costed for Rs.198,953,155 which was works completion certificate was issued on 22 March 2023, had been shown in the work in progress account without capitalization. As such, the building account and the work in progress account were understated and overstated respectively by that amount. Further, depreciation of Rs.7,740,095 relevant to the buildings amounting to had not been accounted for. As such, the expenditure in excess of the income and the building value had been understated and overstated respectively by that amount.	As the final bill for the residential building of Meepe South Asian Teacher Development Center has not yet been paid it has been shown in the work in progress account.	The building should be capitalized after it had been brought into usable condition.

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| (b) | A capital expenditure of Rs.46,473,987 spent on building repairs had been accounted as recurrent expenditure, as such, the expenditure in excess of the income of the year under review by Rs.5,792,932 and the accumulated profit by Rs.40,681,056 overstated and understated respectively. | The recommendation of the Audit and Management Committee had not been taken to remove the costs related to the auditorium before this building caught fire, even though the repair work was completed by 31 December 2023, the related costs of Rs.46,473,987 had not been accounted for. | Expenditure of capital nature should be capitalized under property, plant and equipment. |
| (c) | The Advance Personal Tax charged and settled from officers amounting to Rs.4,379,807 during the year under review was erroneously shown in the financial statements as a receivable and deduction from the contractual service cost of the year. As such, the balance of the receivable and the expenditure over the income of the year were overstated and understated respectively by that amount. | That it will be corrected in the final accounts of 2024 through a journal entry. | An internal control system should be established in relation to the preparation of financial statements with sufficient attention. |
| (d) | The equipment worth of Rs.17,239,551 received by the National Institute of Education under the Technical Education Development Program (TEDP) project in the year 2023, had been accounted under recurrent expenditure instead of being capitalized. | As this includes tangible and intangible assets such as machinery and software, relevant specific information will be obtained and adjusted correctly in the accounts of the year 2024. | Inflows of resources in the form of capital from non-exchange transactions should be identified as assets and income. |
| (e) | The internal roads system in the Maharagama and Meepe premises of the National Institute of Education had not been valued and accounted for. | After revaluation of fixed assets carried out in the year 2019, since the roads were part of the land itself, the roads have been included in the value of the land itself by the respective institute. But as per the instructions of the audit, action will be taken to show the value of the roads separately in the future. | Internal road system is a depreciable asset and should be accounted for under a separate asset class. |

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| (f) | The balance stock in the central stores as at 31 December 2023 was Rs.20,791,680, but as per physical verification it was Rs.22,170,925 and there was a difference of Rs.2,053,918 in the stock. Further, in the balance stock of Note No.04 of the financial statements, the stock of Rs.20,791,680 in the central stores had twice been included. As such, the cost of the stock and the expenditure over the income of the year had been overstated by that amount. | That the change is due to an error in entering the opening balances of the year 2023 in the new accounting system. That according to the physical stock and stock documents, the available stock is equal to Rs.22,170,925. | The correct physical stock as on 31 December 2023 should be accounted for. |
| (g) | In the comparison of the hostel rooms and food income as at 31 December 2023 with the relevant documents of the hostel, discrepancies of Rs.2,971,304 and Rs.6,176,680 were observed respectively. | Due to accounting of hostel income and restaurant income on cash basis this problem has arisen. | All income should be accounted on accrual basis. |
| (h) | The loan interest of Rs.2,800,519 received in respect of the year under review for the distress loan balance to the officers by the institute had been credited to the employee loan fund account without accounting as income of the year. Further, sufficient evidence was not submitted to the audit to confirm the balance of the employee loan fund account of Rs. 87,728,162 stated under Note No. 11 of the financial statements. | The distress loan fund contains only the interest received for the loan funds given to the employees. Based on the audit observation, it will be expected to prepare plans to provide loans using the distress loan fund in the future. | All receipts should be accounted for as income and used for the proposed objectives. |

1.6 Accounts Receivables and Payables

1.6.1 Accounts Payables

Audit Observation	Comments of the Management	Recommendation
Refundable tender bonds deposits total amounting to Rs.1,338,349 included in the current liabilities for more than 05 years had not been settled even till the date of this report.	The retention money will be taken back to the income after 05 years, and although this is continued by the institute as a policy, no disclosure has been made in the accounting notes.	Liabilities should be settled promptly.

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

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Section 4 (L) and 28 of the National Institute of Education Act No. 28 of 1985	The Code of Administrative and Financial Regulations of the institute had not been prepared and approved even till the end of the year under review.	That after making the necessary amendments in the Code of Administrative and Financial Regulations of the National Institute of Education, it will be forwarded to the General Treasury for approval after being forwarded to the next Institutional Council.	A code of Administrative and Financial regulations for the institute should be prepared and approved by the treasury.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	Financial Regulation 571	According to the referenced regulations, the deposits of more than 2 years should be taken to the government revenue, but action had not been taken in relation to deposits amounting to Rs.7,245,258.	That it was noted to act in this regard in the preparation of the final accounts of 2024.	The reference regulation should be followed.
(ii)	Instructions for preparation of fixed asset register under 3 rd Schedule	A fixed asset register had not been prepared for the property, plant and equipment worth of Rs.6,693,658,873 included in the financial statements as per the referenced regulations.	That the relevant officials have been instructed to prepare and maintain an accurate detailed fixed asset register in future.	A fixed asset register should be prepared for the property, plant and equipment of the institute.
(c)	Section 6.6 of the Operations Manual contained in Public Enterprises Circular No. 01/2021 dated 16 November 2021	The institute has not tabled the annual reports for the years 2021 and 2022 in Parliament.	The annual report for the year 2021 will be forwarded to the Ministry of Education for onward forwarding to the Cabinet within the next week. That the Tamil language translation of the 2022 annual report is being done.	The annual reports should be tabled in the Parliament as per circulars.
(d)	Public Administration Circular Nos. 09/2009 and 09/2009 (I) dated 17 June	Even though the attendance and departure were not confirmed by fingerprint recording machines, a sum of	According to the Administration Circular No. 426 dated 02 September 2011 of the National Institute of Education, that the present	According to the circular referred to, all the staff of the institution should prove their arrival

2009	Rs.16,102,642 had been paid as salaries and allowances to 07 top management officers of the National Institute of Education during the year under review only.	Deputy Director General and above officers who were holding Grade II and above posts at that time are exempted from verification of arrival and departure from service through fingerprint machine.	and departure through fingerprint recording machines. The institute should not issue circulars overriding existing government circulars.
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2. Financial Review

2.1 Financial Results

The operating results for the year under review had been a deficit of Rs.150,995,694 as compared with the corresponding surplus of Rs.572,939,994 for the preceding year, thus observing a deterioration of Rs.723,935,688 in the financial result. The decrease in course fee income and government and foreign grants had mainly attributed to this deterioration.

2.2 Trend Analysis of major Income and Expenditure items

The course revenue in the year 2023 had decreased by 84 percent compared to the previous year.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
According to an agreement entered on 29 October 2014 to study philosophy degree, a sum of Rs.3,314,697 had been paid to a foreign university on behalf of an officer but due to medical grounds, he stopped midway and had arrived to the island. According to the agreement, the amount should be collected from the relevant officer, but even by 31 December 2023, an amount of Rs. 2,233,225 was still to be recovered.	Action is being taken to referring another officer for this degree to cover the course fees paid to that foreign university. If that is not possible, since the retirement period of the officer is near, the administration section will be informed and the maximum amount of premium that can be recovered from his salary will be collected.	Although this officer had vacated the course and returned, another officer could have been employed in that year and the loss could have been reduced. Accordingly, prompt actions should be taken to recover the due amount in a background where such arrangements have not been made in time.

3.2 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
(a) An amount of Rs.5,718,318 should have been recovered from the value of the resource allowances which had been overpaid in excess of 50 percent for the period from the year 2014 to 2020. The audit was not satisfactory on the actions taken to collect from the gratuity without recovering from the monthly salary of the relevant officials.	Action will be taken to inform them in this regard and after obtain their consent, the related money will be collected in installments while they are in the service.	Immediate actions should be taken to recover the overpaid amount as per Money Regulation 119.

- (b) Buildings worth of Rs.35,130,300 owned by the National Institute of Education had been given to external institutions to maintain offices without entering into rental agreements and without charging rent.
- According to the requirement of the National Institute of Education, a sub-post office and a Bank of Ceylon branch have been maintained under the Maharagama Post Office since its inception. However, taking into consideration the comments of the audit, action will be taken to assess the buildings maintained by this office and reach an agreement regarding the charging of rent in coordination with the relevant government agencies.
- Legal agreements should be entered into for the land and buildings where the offices are run by the external agencies and arrangements should be made to collect the rent.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
The laundry room of the Foreign Hostel and its equipment worth of Rs.3,955,181 remained unused and idle since March of the year under review.	That the objective of providing hostel facilities for foreign students by the South Asian Teacher Development Center has not been fulfilled so far. Accordingly, this underutilization situation was occurred.	When procurement goods, it should be made according to requirement and priority.

3.4 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
(a) The Director (Acting) of Education Administration and Development Department has informed by the letter dated 04 December 2012 that the reasons for the excuses submitted regarding the irregularities of the senior lecturer cannot be accepted. But a formal disciplinary inquiry had not been conducted in terms of Section 15 of Chapter XLVIII of the Establishment Code of the Democratic Socialist Republic of Sri Lanka. Also, although she had not meet the qualifications according to the recruitment procedure at that time, regardless of the irregularities of the officer, she had been promoted to the position of senior lecturer on 11 May 2015.	By considering the facts pointed out by the audit, this situation will be reported to the Council, the disciplinary authority of the National Institute of Education, and action will be taken to get instructions on the next steps to be taken.	The referred regulation should be followed.
(b) Although a year has passed since the management of the institute accepted all the deficiencies pointed out by the audit regarding two officers holding the position of Deputy Director General who did not meet the qualifications according to the approved recruitment procedure of the National Institute of Education, the relevant promotions should not be rectified.	A three-member committee was appointed and the recommendations were obtained and the Attorney General opinion has been consulted on 24 June 2024 and it will be rectified in the future.	Recruitments and promotions should be done as per approved recruitment procedure and wrongly given promotions should be rectified.