

National Institute of Business Management and its Subsidiary - 2024

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the National Institute of Business Management and its Subsidiary for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, and the profit and loss and comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Institute. Because of the significance of the matters discussed in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the facts set out 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 was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit 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 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 intends 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 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

It is my responsibility to issue the auditor's report on the financial statements of the Institute and the Subsidiary based on the audit conducted in accordance with Sri Lanka Auditing Standards. However, due to the matters described in the Basis for Disclaimer of Opinion section, I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard	Management Comment	Recommendation
Property, plant and equipment should be revaluated every 3 or 5 years depending on the need in terms of Paragraph 34 of Sri Lanka Accounting Standard 16 and even though it had been stated in the financial statements of the Institute (NIBM) that it is revaluated every 03 years in accordance with Accounting Policy 2.2.1 (a), 05 asset classes used by the Institute (NIBM) with a cost of Rs.1,455.25 million had not been revaluated.	Revaluation of Assets have been carried out for the year 2024.	Assets should be revaluated and taken into account in accordance with Accounting Standards and Accounting Policies.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Due to the overwriting off of amortization of right-of-use assets by Rs. 2.85 million, the assets had been understated on the basis of profit and lease for the year under review.	This will be corrected.	Accounts should be prepared by accurately calculating and adjusting depreciation on right-of-use assets.

(b) Due to an error in the calculation of lease interest, the lease interest expense had increased by Rs.0.78 million and because of the incorrect recording of its correction, the lease liability had decreased by Rs.0.78 million in addition to the above error and the retained earnings balance of the previous year had been overstated by Rs.1.56 million.	This will be corrected.	Lease interest should be calculated accurately and entered into the accounts.
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1.5.3 Inappropriate Evaluation or Estimation

Audit Issue	Management Comment	Recommendation
<p>The National School of Business Management (NSBM), a fully owned subsidiary of the National Institute of Business Management (NIBM), had its shareholdings cancelled on 15 July 2024 and was converted into a limited company with guarantees from third parties other than the government or a government-affiliated institution.</p> <p>The book value of the net assets of the National School of Business Management (NSBM), a fully owned subsidiary of a government-owned institution that was continuously profitable and growing, was Rs.4,414.8 million as at the relevant conversion date and it was excluded from the right upon agreement to pay Rs.1,627.68 million.</p> <p>Due to this transaction a direct loss of Rs. 2,787.1 million had occurred to the Institute (NIBM) compared to the book value of net assets and the market value of a profitable and continuously growing sustainable business entity had been completely transferred to a third party.</p> <p>The methodology and transparency followed for the purpose of disposing of this asset are questionable, and the assets and liabilities held by NSBM had not</p>	<p>It is stated that the method of disposing of these assets was carried out in accordance with the decision taken by the Cabinet of Ministers in the government and that the Board of Governors of the NIBM has only given approval to the decision taken in accordance with that policy decision.</p>	<p>It has been informed that a special report has been submitted to Parliament regarding the disposal of assets and actions should be taken to act on the recommendations received in this regard, in the future.</p>

been valued at fair value as at the relevant transfer date.

Accordingly, the disposal of the investment in the National School of Business Management (NSBM) and the related transactions could not be reasonably confirmed during the audit due to the uncertainty surrounding the recognition, measurement and presentation of those transactions in the financial statements of the year under review.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Issue	Management Comment	Recommendation
Actions had not been taken to recover the balance of Rs. 63.58 million which was outstanding for more than 02 years out of the outstanding balance of Rs.184.55 million as at December 31 of the year under review.	Out of the total income of the Institute amounting to Rs. 2.76 billion, a sum of Rs.63.58 million is only 2 per cent and that situation is common in the education sector.	Control measures should be implemented to ensure prompt recovery of outstanding loans and to minimize the chance of losing the loan.

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

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Management Comment	Recommendation
Section 3.4 (X) of the Operations Manual for Public Enterprises	Although every state-owned enterprise should have a Succession Plan, such a Succession plan had not been prepared for the Institute.	The Succession Plan is being prepared.	A Succession Plan should be prepared in accordance with the rules and regulations

and
reviewed
regularly.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a deficit of Rs.2454.16 million and the corresponding profit for the previous year was Rs. 985.98 million. Accordingly, a deterioration of Rs.3440.14 million was observed in the financial result. Failure to dispose of the investment made in the National School of Business Management (NSBM), a fully owned subsidiary of the National Institute of Business Management (NIBM), at a fair value had mainly affected to this a deterioration.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Even though the Committee on Public Enterprises (COPE) held on 02 December 2021 had reviewed the Auditor General's observations and instructed the Department of Management Services to develop an acceptable methodology for calculating incentives, the activity had not been completed up to the date of this report.	Although the new incentive calculation methodology was prepared and submitted to the Department of Management Services for approval through the Line Ministry on 21 January 2022, approval has not been obtained so far.	Steps should be taken to obtain the approval of the Department of Management Services for the incentive calculation methodology prepared based on the COPE recommendations.
(b) Even though the approval had been granted by the Decision of Cabinet of Ministers dated 18 January, 2017, to acquire the 45 perches of land owned by the Hector Kobbekaduwa Agricultural Research and Training Institute, the Institute had failed to implement the relevant decision up to the date of this report.	Although the Institute has taken the relevant steps through the Line Ministry to acquire this land, the Hector Kobbekaduwa Agricultural Research and Training Institute has not yet taken steps to implement the Decision of the Cabinet of Ministers.	Steps should be taken to acquire the land owned by the Hector Kobbekaduwa Agricultural Research and Training Institute, to the Institute (NIBM) as per the decisions of the Cabinet of Ministers.

(c) It had been handed over to the Employees' Welfare Association to generate income from the canteens established in Colombo and other 05 branches owned by the Institute (NIBM) and the Employees' Welfare Association had received Rs.1.26 million per year as rental income from this. However, all expenses for the maintenance of the canteen and physical facilities including chairs, tables, equipment, water and electricity were borne by the Institute. Even though the service provider could have been selected by following the proper tender procedure, by not doing so, the Institute had lost the rental income that could have been obtained.

Permission has been granted to operate the restaurant through the Welfare Association under the supervision of the Institute with the approval of the Governing Council and they run the canteen well and actions will be taken in the future to hand over the canteen to a suitable party following the tender procedure.

A tender procedure should be followed to select a service provider for renting canteens and that revenue should be collected into the NIBM account.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>The National Institute of Business Management (NIBM), established by Act No. 23 of 1976, had been granted approval to award degrees approved by the University Grants Commission by Gazette Extraordinary No. 1614/11 dated 12 August 2009. Then, the University Grants Commission had informed the Minister of Education in a letter dated 13 August 2012 that the approval to offer local degree courses at the National Institute of Business Management (NIBM) was suspended and given to the National School of Business Management (NSBM). Due to the conversion of the National School of Business Management into a Company limited by guarantee from 15 July</p>	<p>Although an application was made to the University Grants Commission to obtain approval to award local degrees, the section on the awarding of degrees in the Institute Act has been drafted and forwarded to the Line Ministry, the Ministry of Education, Higher Education and Vocational Education, with the approval of the Governing Council, for further action.</p>	<p>NIBM should take steps to regain the right to award local degrees from the University Grants Commission and ensure the survival of the institution by increasing its income.</p>

2024, the National Institute of Business Management had completely lost the opportunity to award local degrees due to the loss of its ownership.

3.3 Underutilization of Funds

Audit Issue

Even though Rs. 1.75 million had been paid as consultancy fees on 01 September 2023 and 24 October 2023 for the renovation of the International Academic Division located on the second floor, that expense had become a futile expense since that work had not been done.

Management Comment

A 70 per cent of the consultancy fees payable for the estimated Rs.90 million Drawings 3D's and BOQ prepared and submitted by the consultancy firm was paid according to the agreement and it has been planned to carry out the procurement activities for the project in the future.

Recommendation

Actions should be taken to implement the renovation of the international unit located on the second floor as planned or, if not, to recover the relevant costs from the responsible persons.

3.4 Procurement Management

Audit Issue

Additional criteria were introduced and re-evaluated in addition to the criteria disclosed in contradict to 5.3.20 (b) of the Government Procurement Guidelines, 2006 in the project for the proposed internal renovation works on the first, second and third floors of the main building of the National Institute of Business Management. Accordingly, the Institute had incurred a loss of Rs.1.48 million since the company that had submitted the third lowest price had won the bid, surpassing the first two companies that had submitted the lowest price that met the qualifications. The contractor selected through the above evaluation had handed over the

Management Comment

It has been decided to deduct the amount payable to the contractor after considering the maximum extension of time that can be granted, and assess and deduct final bills for defective work and pay, taking necessary steps to correct.

Recommendation

Actions should not be inconsistent with the Government Procurement Guidelines and actions should be taken to rectify the deficiencies through the relevant contractor and recover the late fees and the loss from the responsible officials.

project 02 months and 15 days (75 days) later than the scheduled time and it was observed during the physical inspection that the project had been completed with numerous deficiencies. Even though 01 year had elapsed since the project was handed over, the Institute (NIBM) had not taken steps to rectify the deficiencies through the relevant contracting company.

3.5 Human Resource Management

Audit Issue	Management Comment	Recommendation
(a) There were 22 and 03 vacancies in the non-academic and academic staff, respectively as at 31 December 2024, as per the approved staff.	Continuous efforts are being made to fill the relevant vacancies.	Necessary steps should be taken to prepare a Succession Plan and review it frequently to ensure that vacancies do not arise.
(b) The trend of employee turnover had increased in the organization between 2020 and 2024, and accordingly the employee turnover rate had increased from 2.97 per cent to 15.86 per cent.	It was noted.	A specific programme should be developed with government support to reduce employee turnover.
(c) Even though the current Director General was appointed for a period of 5 years from 06 March 2017 in accordance with the powers vested in the Minister in charge of the subject, in terms of Sections 16(2) and 16(5) of the National Business Management Institute Act, No. 23 of 1976, the minimum qualifications had not been met on that date as per the approved recruitment process.	The relevant appointment has been made by the Minister of the Line Ministry for a period of five years without considering age limit for the position of Director General in accordance with the Scheme of Recruitment approved by the Department of Management Services in	Measures should be taken as per the National Business Management Act and the Scheme of Recruitment.

the year 2016 and in
accordance with the
National Business
Management Act No. 23
of 1976 .