

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National School of Business Management (“Company”) for the period from 01 January 2024 to 14 July 2024 comprising the statement of financial position as at 14 July 2024 and the statement of profit and lost, statement of changes in equity and cash flow statement for the period 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. 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 Company as at 14 July 2024, and of its financial performance and its cash flows for the period then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

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 Company’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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

1.4 Audit Scope

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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Despite the National School of Business Management (NSBM) transitioning from a subsidiary of the National Institute of Business Management (NIBM), which operated from 2011 to 14 July 2024, to a Company limited by guarantee on 15 July 2024, its assets and liabilities were not revalued by a competent valuer (As a government owned entity by the government valuer). This omission resulted in the financial statements at the conversion date not reflecting fair value in accordance with Sri Lanka Financial Reporting Standard (SLFRS) 13 and Section 25 of Sri Lanka Accounting Standard (LKAS) 01.	There are no any new private individuals or entities involved in the ownership or governance of the university. This represents only a change in the operational model, which is well- suited for a fee- levying university, and does not involve the sale or transfer of assets to any private parties.	Assets and liabilities should be revalued by a competent valuer

1.6 Emphasis of Matters

I draw attention to Note 2.5 to the financial statements, which discloses that the National School of Business Management, previously a wholly government-owned subsidiary from 2011 to 14 July 2024, was incorporated as a Company limited by guarantee under Section 32 of the Companies Act, No. 07 of

2007, with effect from 15 July 2024. This conversion was made in accordance with the decision of the Cabinet of Ministers dated 27 May 2024, aimed at further expanding the institute.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Sections 64.1 and 2 of the Companies Act, No. 07 of 2007 and Paragraph 6 with of the amended constitution of the National School of Business Management dated 17 June 2019,	•The Governing Council of the company is required to obtain the opinion of the auditor regarding the reacquisition of shares by the Company itself. •The Cabinet of Ministers' decision dated 27 May 2024, it was decided to repay the funds invested by the National Institute of Business Management (NIBM) as share capital, along with interest calculated based on the interest rate applicable to treasury bonds, without obtaining the auditor's opinion on the fair value of the consideration payable for the reacquisition of 80,000,001 shares of NSBM held by NIBM. •Furthermore, no business valuation was conducted in accordance with the decision of the Governing Council of NIBM.	The process involved the legal transfer of all assets, liabilities and obligation from NSBM Limited to a newly incorporated company limited by guarantee [NSBM (Guarantee) Limited] – an action that was explicitly advised and sanctioned by the Honorable Attorney-General. This process did not involve any re-purchase (or re-acquisition) of shares, nor did it entail any transaction that would fall under the provisions stipulated in Section 64 of the Companies Act requiring an auditor's opinion.	The governing council of the company should obtain the opinion of auditor regarding the acquisition of shares by the company itself and should be conducted the Business valuation
(b)	Public Enterprises Circular No. PED/01/2021 and Section 2.2.5 of the Guidelines Manual of the Circular dated 16 November 2021, and Section 2.3,	The Company did not obtain the approval of the Director General of the Department of Public Enterprises for the Financial and Accounting Operational Manual, as required by the referenced circulars.	As per the PED/01/2021 NSBM the manual was applicable to all SOEs. The companies listed in the Colombo Stock Exchange, Subsidiary Companies and State Banks are exempted	The approval should be taken on the Director General of the Department of Public Enterprises for the manual.

Section 7.7 of the
Operations
Manual and Public
Enterprises
Circular No.
PED/01/2021(ii)
and
PED/01/2021(iii)
dated 27
September 2023

from the applicability
of this manual until 27th
September 2023.

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| <p>(c) Paragraph 3.2v of the Operational Manual</p> | <p>Even though the relevant circulars require public enterprises to establish performance-based criteria for incentive schemes and obtain approval from the Director General of the Public Enterprises before implementation, the company had not obtained such approval for its incentive payment system as of 14 July 2024, the date of the audit.</p> | <p>As per the Board decision taken on April 27, 2021, it was decided to transition from an annual to a monthly performance incentive structure, effective May 2021, as per a monthly performance incentive scheme which has been practiced since then as per the monthly attendance and non-conformity reports.</p> | <p>Action should be taken according to the Operational Manual.</p> |
| <p>(d) Sections 3.1 and 3.2 of the Operational Manual</p> | <p>The Company had not obtained approval from the Director General of Public Enterprises for its staff recruitment and promotion scheme or the remuneration structure, as required by the referenced circulars, even as of 14 July 2024.</p> | <p>According to the Articles of Association of National School of Business Management Limited (NSBM), the business and affairs of the company shall be managed by or under the direction or supervision of the Board of Directors.</p> | <p>Action should be taken according to the Operational Manual.</p> |

- (e) The Circular No. SEC/2023/E/01 dated 29.03.2023, and the Circular No. SEC/2023/E/02 dated 06.04.2023 of The Commissioner General of the Department of Inland Revenue
- Though the referenced circulars require all financial and non-financial benefits provided by the employer, including salaries, holiday pay, overtime allowances, commissions, incentives, bonuses, personal allowances, official quarters, transport allowances, and fuel for vehicles, to be considered for the calculation of Advance Personal Income Tax (APIT), the Company did not include official quarters, vehicles, and fuel provided to its officers, resulting in non-compliance with tax regulations.
- NSBM does not provide any office quarters for employees free of charge. The respective employee lives in an office apartment pays a monthly rental, electricity bill, water bill and telecommunication bills to NSBM. No officer has been assigned a specific vehicle for personal use. All vehicles are being used for official purposes only.
- As per the circular non cash benefits should be consider for Advanced personal income tax.

2. Operational Review

2.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
As part of the business development activities, a total of Rs.20,664,604 was incurred from the funds of the National School of Business Management for a tour undertaken by the Minister of Education, along with the Vice Chancellor and Deputy Vice Chancellor, to the United States of America and Canada from 07 April 2024 to 27 April 2024. Out of this amount, Rs.3,343,964 was spent on expenses related to the Minister of Education.	The visits to USA and Canada universities are part of business development activity of NSBM. The Vice Chancellor and the deputy Vice Chancellor representing NSBM for initiating global relationship building with the most preferred educational destination of United States of America (USA) and Canada. For this visit Rs.6,183,495.75 was paid for the officials as per the circular No M.F.01/2015/01 and amendments thereto. The honorable minister participated these discussions representing the government of Sri Lanka as the academic discussions were initiated through his personal contacts. The minister did not obtain any subsistence for this tour and the Company paid for all the air tickets at market prices.	The institution's money should be spent for economically.

2.2 Identified Losses

Audit Issue	Management Comment	Recommendation
Four government buses were sold through a private vehicle auctioning agency based on valuation reports from a private valuation institute, contrary to the requirement to obtain a government valuer's report and conduct a public auction to ensure adequate competition. As a result, the buses were sold below market value, leading to a total loss of Rs.2,700,000.	NSBM was incorporated as a Company and the Articles of Association of the Company was formulated with the powers for the Board of Directors to operate the business operations as powers vested by the Article of Association. Accordingly, the Sale of Passenger Busses was conducted as per the provisions of the sub-section 'Disposal' of the section 'Property Plant and Equipment' of the board approved Finance & Accounting Operations Manual of NSBM.	When selling government owned vehicles, a valuation report should be obtained from a government appraiser and the sale should be done in public auction, subject to sufficient competition.