

1.1 Opinion

The audit of the financial statements of the National Institute of Business Management and its subsidiary for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and the 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(6) 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 Finance Act, No 38 of 1971. My comments and observations which I consider should be presented in Parliament, appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the National Institute of Business Management and its subsidiary as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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 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 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 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, 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 Institutes' 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 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules/ Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(a) Financial Regulation 452(1)	An Audit Query Register had not been maintained.	Action was taken to maintain it under supervision of the Internal Auditor.	An Audit Query Register should be maintained in terms of Financial Regulations.
(b) Financial Regulation 891(1)	A Security Register had not been prepared.	A Security Register containing the names of officers required to give security in obtaining loans, is maintained.	Action should be taken in terms of Financial Regulations.
(c) Financial Regulation 110	A Record of Losses had not been maintained.	Instructions have been given to maintain a Record of Losses.	Action should be taken in terms of Financial Regulations.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a profit before tax of Rs.89,504,087 as compared with the corresponding profit of Rs.30,259,836 for the preceding year, thus indicating an improvement of Rs.59,244,251 in the financial result. The increase in income had been the main reason for the above improvement.

3. Operating Review

3.1 Operating Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
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(i)	According to the Letter No. DMS/1674/2017 dated 16 October 2018 of the Director General of the Department of Management Services, it had been informed that the approval of the Governing Council of the Institute should be obtained for the cost incurred for incentive every year. However, a sum of Rs.130,111,164 had been paid for incentive in the year under review without obtaining such approval.	Necessary financial statements have been forwarded for the approval of the Governing Council.	Approval of the Governing Council should be obtained as per provisions of the circular before paying incentive.
(ii)	In the computation of incentive which can be distributed, it is computed at a rate of 11 per cent of the income and 5 per cent of the operating profit. As such, it was observed that double computation of incentive is taken place on the basis of income. Moreover, in the computation of incentive on the basis of operating profit, attention had not been paid to decrease direct expenses of Rs.407,375,251 of the year.	Approval necessary therefor has been granted by the Department of Management Services.	In the computation of incentive based on the income and operating profit, the income has been taken into consideration twice. Moreover, attention should be paid to decrease expenses too which directly affect the earning of income.
(iii)	In the computation of income for incentive which can be distributed in the year 2019, loan interests of employees and interest on investments, which is not a performance indicator,	Computations are carried out according to approval granted by the Department of	Attention should be drawn to compute incentive by removing items which cannot be considered as

totalling Rs.17,278,940 and Management performance
 Rs.32,446,660 of the years 2018 and Services. indicators.
 2019 respectively, had been considered as other income.

- (iv) According to the letter No.NSCC/PO/01/84 CBI of 14 March 2007 issued by the Secretary of the Salaries and Cadre Commission to the Director General of the Department of Management Services, it had been indicated that payments are not entitled for leave unavailed. However, contrary to that, payments totalling Rs.24,334,948 had been made by the Institute from the year 2016 up to the year under review for leave unavailed. In the payment of incentive, medical leave is not taken into consideration and payments have been made from the year 1991 up to now, based on another methodology therefor. Should be complied with existing circulars.
- (v) Payments of Rs.2,313,892 and Rs.2,314,126 had been made in the years 2018 and 2019 respectively by the Institute without special Cabinet approval contrary to Public Enterprises Circular No. PED 3/2018 of 07 December 2018. In terms of Circular No. PED 3/2018, at no instance had the Institute paid a mid-term allowance to the employees, which could be considered as a bonus. As no advance is available to be deducted from the annual bonus paid according to this Circular, the total bonus entitled, has been paid. Should be complied with the Circular.

3.2 Staff Administration

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
The academic staff and the non-academic staff had been approved under 55 posts each as at 31 December of the year under review. However, the actual cadre stood at 50 and 45 respectively and as such, the service of 51 and 13 persons had been obtained respectively on contract basis.	The number of posts should be increased with the increase in the number of courses of the Institute. As such, recruitments have been made on contract basis.	Recruitments should be made for the vacant posts.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
The indicators for measuring the achievement of sustainable development goals and targets relating to the role of the National Institute of Business Management in terms of the Year 2030 Agenda of the United Nations on Achievement of Sustainable Development Goals, had not been prepared.	Action will be taken in future to present this information to Audit.	Action should be taken to identify sustainable development goals and targets.