

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the National Institute of Social Development for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 Finance Act, No. 38 of 1971. My comments and observations which I consider should be tabled in 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 2020, 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 (SLAuS). 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 Audit Scope (Auditor's Responsibilities 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 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 Audit Observations relating to the Preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

The Institute is 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.

Audit Observation -----	Comment of the Management -----	Recommendation -----
<p>The same Management Assistant of the Accounting Division had been entrusted with the tasks of maintaining cash books, writing and issuing cheques, preparation of monthly account summary, extending the validity period of cheques, and maintaining files with respect to two bank accounts being maintained by the Institute. Duties had not been assigned in a manner enabling internal supervision.</p>	<p>The Institute maintains 02 current accounts under the numbers of 143-1001-0-3298037 and 143-100123298038. One Management Assistant had been entrusted with the maintenance of those accounts thus far. At present, the two posts of Accountant and Accounting Officer remain vacant, and applications had been called for through the Gazette dated 28 May 2021. Making recruitments and conducting interviews had been delayed as the Institution had been closed and travel restrictions had been imposed due to Covid 19 pandemic. It is informed that corrective measures will be taken following the new recruitments.</p>	<p>The internal control system of the Institute should be implemented properly.</p>

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation	Comment of the Management	Recommendation
(a) According to Sri Lanka Public Sector Accounting Standard 02, the cash flows generated through financing activities should be shown in the cash flow from the financial activities, but capital grants totaling Rs. 8,309,475 had been shown under operating activities.	This has been corrected in the cash flow presented herewith.	The relevant accounting standards should be followed.
(b) Prior year adjustments totaling Rs. 172,239 not relevant to the cash flow, had been adjusted to the operating profit contrary to Sri Lanka Public Sector Accounting Standard, 02.	A sum of Rs. 172,239 had correctly been shown as prior year adjustments under accumulated funds in the statement of changes in equity included in the financial statements of the year 2020. However, that amount had been adjusted to the operating profit in the cash flow statement by mistake.	The relevant accounting standards should be followed.
(c) The Information System installed at the value of Rs. 2,037,760 for maintaining information of the students following the courses and shown as an intangible asset in the statement of financial position, had not been depreciated in terms of Sri Lanka Public Sector Accounting Standard 20.	The student Information System installed at a cost of Rs. 2,037,760 had remained functional since the year 2020, and a bug surfaced during the operation was corrected within the year by the programmers who had supplied the software. Furthermore, a sum of Rs.224,000 out of the said cost, has been retained until the smooth functioning of the software is ensured. Action will be taken in terms of the accounting standards to depreciate 25 per cent per annum once the retention monies are released.	The relevant accounting standards should be followed.

1.5.3 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) A sum of Rs. 3,308,461 remained unidentified as at 31 December 2020 in accordance with the bank reconciliation statement relating to the bank account being maintained by the Institute. The same amounted to Rs.1,374,832 and Rs.1,933,629 for the years 2019 and 2020 respectively. However, no action had been taken to identify that income and shown in the accounts.	Identification of those sums have been delayed as the students had not furnished the receipt to the Institute after crediting the course fees directly to the bank account. The Institute has introduced a new voucher for making payments in this connection, and a new process has been put in place by the registrar's division. As such, it is informed that this situation will be averted in due course. Furthermore, a considerable amount of deposits of the years 2019 and 2020, have been identified and brought to accounts.	Income of the year should be properly identified.
(b) Capital grants totaling Rs. 31,590,165 had not been amortized as at 31 December 2020. An accounting policy for accounting the amortization of capital grants had not been identified and disclosed through the notes to the accounts by the Institute.	It is informed that an accounting policy will be prepared for accounting the amortization of capital grants, and the amortization will be brought to accounts in the year 2021.	The relevant accounting policies should be established.

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

Reference to Laws, Rules and Regulations, etc.	Observation	Non-compliance	Comment of the Management	Recommendation
Financial Regulation 371 (b).	Ad hoc	Sub-Imprests should be settled as soon as the completion of the task for which	The reasons that the office had been closed for several months following the Covid-	The Laws, Rules, and Regulations should be followed.

it was given. However, advances totaling Rs. 315,420 given by the Institute in 25 instances had been settled after a delay ranging from 01-06 month(s). 19 pandemic and the difficulties of the officers in reporting for duty from their residences in rural areas, had attributed to the delay in settling the advances. As measures have been taken to avoid this situation, it is informed that the advances will be settled properly.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 13,141,022 as against the deficit of Rs. 5,626,205 in the preceding year. As such, an improvement of Rs. 18,767,227 was observed in the financial result. The decrease in the expenditure on administration and relocation had mainly attributed to the said improvement.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
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<p>According to the Action Plan of the Institute for the year under review, it had been scheduled to conduct diploma courses on counseling for the academic years 2018/2019 and 2019/2020 at the regional training centers in Ranna, Kurunegala, Matara, and Ratnapura. However, those courses had not been conducted, and the reasons for failing to do so had not been mentioned in the performance report.</p>	<p>The course could not be commenced at the regional training center in Ranna due to lack of applicants for the academic years 2018/2021. However, 40 applications had been received for the diploma course on counseling to be conducted from the year 2021, and 22 students participated in the interview held on 25 March 2021. The rest of the students could not do so due to Covid-19 pandemic. As such, it is scheduled to conduct the interview for the other students as well thereby commencing the course in due course.</p>	<p>Action should be taken in compliance with the Action Plan so that the expected targets will be achieved.</p>

3.2 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
Approved cadre of the Institute was 102, and there existed 36 vacancies as at 31 December of the year under review representing 35 per cent. The post of Director General of the Institute remained vacant since the year 2018, and the Additional Director General (Academic) is acting on that post.	Appointments to the post of Director General of the Institute are made by the Ministry. Accordingly, the Department of Management Services has been requested to revise the Scheme of Recruitment for the Director General. As such, the recruitment will be made by the administrative division of the Ministry as soon as the approval is received. Applications had been requested through the Gazette notification published on 12 September 2019 to make recruitments to the vacancies of the Institute, but the recruitment procedure had to be suspended in accordance with the Letter, No. Dms/Policy/Recruitment of the Secretary of the Treasury dated 2019/11/20. Furthermore, the governing council had instructed in May 2020 that the Scheme of Recruitment of the Institute be revised and continue with the new recruitments. Accordingly, the Department of Management Services had sent the Scheme of Recruitment to the Institute on 07 April 2021 after being revised and approved. Thereafter, applications had been requested for the posts through the Gazette published on 28 May 2021. Interviews have been scheduled to be held in due course.	Recruitments should be made without delay.

3.3 Management of the Fleet of Vehicles

Audit Observation	Comment of the Management	Recommendation
A Cab owned by the Institute had been handed over to the relevant agent for repairs in August 2019. Although a sum of	Paying a sum of Rs. 162,577, the said vehicle had been handed over to the agent in the year 2019 for carrying out repairs on the air condition system and the dash board. At the time of getting	Proper maintenance of the fleet of vehicles should be ensured.

Rs.162,977 had been paid to the said agent in August 2020, the Cab had not been received to the Institute. Approval of the Ministry for auctioning that vehicle had been sought in January 2021 by stating that the vehicle had not been in running condition. Due to failure in identifying this condition prior to handing over the vehicle for repairs, the amount paid for the repair had become fruitless.

the vehicle back after the repair, a problem in the engine was detected. As such, the agent was again requested to repair the engine and an estimate was obtained. The estimate so obtained was presented to the governing council through the Paper dated 22 October 2019, but approval was not given thereon; instead, the Council instructed that the vehicle be put on auction.

Accordingly, a request was made in writing that this vehicle be disposed when the vehicles of the Ministry are disposed, and the Ministry requested a report from the Technical Officer in that connection. The file of the vehicle was forwarded to the Technical Officer on 29 July 2021.