

## **National Institute of Education - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Institute of Education for the year ended 31 December 2020 comprising the statement of financial as at 31 December 2020 and the statement of financial performance, statement of changes in net assets 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 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 Institute as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

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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**

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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 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 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 Responsibilities for the Audit of the Financial Statements**

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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 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 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 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 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 on the preparation of Financial Statements**

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### **1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards**

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| <b>Non-Compliance with the reference to particular Standard</b>   | <b>Management Comment</b>   | <b>Recommendation</b>  |
|---|---|--|
| <p>Contrary to paragraph 54 of Public Sector Accounting Standards 07 of Sri Lanka, the revaluation losses on computer equipment and office equipment as at 31 December 2018 were Rs. 44.2 million and Rs. 20.6 million respectively and they had been set off to revaluation gains of 04 other assets classes. As a result, the revaluation surplus and the accumulated fund were overstated and understated from Rs 64.8 million respectively in the financial statements, respectively.</p> | <p>In the fixed asset register prepared by the National Institute of Education for the year 2018, several items under the asset class such as computer accessories were identified as office equipment in the revaluation and included in the asset class as office equipment. Accordingly, according to Sri Lanka Public Sector Accounting Standard No. 07, the increased or decreased revalue amount between the two classes of assets should not be offset, but in this case, it would be erroneous to find the excess or deficit of the two asset classes separately.</p> | <p>Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards.</p> |

## 1.5.2 Accounting Deficiencies

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Following observations are made.

| <b>Audit Observations</b><br>-----   | <b>Management Comment</b><br>-----  | <b>Recommendation</b><br>-----  |
|--|---|---|
| (a) Out of the 16 courses conducted at the institute, the course fee income received for the next year in respect of 02 courses which were audited was Rs. 3.3 million and it was identified as the course fee for the year under review, therefore the Course fee income for the year and course fee income for the next year were overstated and understated from that amount in the financial statements. | All course fees received in the month as course fees are accounted for according to the bank account details. Therefore, all the course fees received are correctly entered in the course fees ledger account. Also, the institution has received only a part of the receipts from the bank and therefore it is difficult to analyse the course fees according to the course classification. An appropriate program has already been put in place to analyse the course fees. | Course fee income for the year should be accurately identified and accounted for.   |
| (b) The non-cash asset surplus of Rs 15.1 million and the Rs 7.2 million cash transfer transferred from the bond violation fund to the cumulative fund were included as cash inflows and cash outflows respectively.   | This observation was revealed from the final account which was resubmitted for audit, after correcting the errors for the issued draft audit report.  | In preparing a cash flow statement, the impact of financial flows must be accurately identified.  |
| (c) An accounting policy had not been identified for the amount due from officials who had violated the bond agreement, and the amount of Rs. 7.2 million which was in the Bond Violation Fund at the beginning of the year under review had been transferred to the Accumulated Fund.   | This observation was revealed from the final account which was resubmitted for audit, after correcting the errors for the issued draft audit report.  | An accounting policy should be identified and adjustments should be made in the financial statements regarding the amounts due from officials who have violated the bond agreement. |

## 1.6 Accounts Receivables and Payables

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### 1.6.1 Payables

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| <b>Audit Observations</b>   | <b>Management Comment</b>  | <b>Recommendation</b>  |
|---|--|--|
| The provident amount and provident surcharge amount of Rs. 68.7 million payables for the period from 2006 to 2015 had not been settled by the end of the year under review. | An inquiry has been made from the Commissioner of Labour regarding the payment of arrears of provident funds, to which no reply has been received so far. Payment will be made as soon as the relevant inquiry is answered. In addition, provision of 12% of the provident fund arrears due by the employer has been set aside for the year 2021 and the premiums will be paid expeditiously as per the agreement reached with the Commissioner of Labour. | Necessary steps should be taken to settle the arrears in the Provident Fund. |

## 1.7 Non-compliance with Laws, Rules and Regulations

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| <b>Reference to Laws, Rules and Regulations</b>   | <b>Non-compliance</b>  | <b>Management Comment</b>  | <b>Recommendation</b>                                    |
|---|--|--|--|
| <b><u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u></b><br>Financial Regulation 396 | 44 cheques issued but not submitted for payment exceeding 6 months valued at Rs. 8.2 million had not been dealt with in accordance with the financial regulations. | At the end of the validity period (60 days) of the cheques mentioned in the audit report, the receiver is notified by phone to return it for re-validation and The Deputy Director General (Administration Finance and Support Services) has been informed to advise the relevant officers to take necessary further action as per FR 396 (d). | Action should be taken as per the Financial Regulations. |

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the year under review amounted to a surplus of Rs.124.1 million and the corresponding deficit in the preceding year amounted to Rs.84.6 million. Therefore, an improvement amounting to Rs.208.7 million of the financial result was observed. The reasons for the improvement Increase in government grants and course fees revenue and decrease in contracted expenses.

**3. Operating Review**

**3.1 Management Inefficiencies**

**Audit Observations**

The Ministry and other organizations had provided Rs.155.1 million to the institute during the year under review, for conducting television and other programs such as Gurugedara to overcome the obstacles encountered in school education during the COVID-19 situation of the year 2020. Out of this, Rs. 119.6 million had been spent on activities outside the relevant purpose.

**Management Comment**

In addition to the amount of Rs.15.7 million recorded as deposit expenditure, all the remaining amounts are mentioned in the Budget 2020 under GEMP and MOE projects and The Heads of Expenditure under those projects have been utilized for the relevant purposes and these expenses have been accounted for under the relevant Heads of Expenditure in the Final Accounts 2020.

**Recommendation**

Allocated money for a specific purpose should be spent to achieve that goal.