

National Institute of Social Development - 2021

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 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in equity 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported 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 2021, 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

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 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 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 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 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 on the preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
(a) During the period from February 2021 to November 2021, the sum of Rs. 3,187,360 received in 02 bank current accounts was shown in the financial statements as deposits without being recognized as income and accounting for the course fees related to the reviewed year. Due to this, the surplus of the year under review was under-calculated by that amount.	That receipts of course fees amounting to Rs.3,103,752 have been identified and accounted for in July 2022 and earlier months and that an internal system will be implemented to identify and account for future deposits.	Course fee income related to the accounting period should be identified and accounted correctly.
(b) No specific method was identified to adjust the course fees of the students who left the courses and as at 31 December 2021, the outstanding course fees of the students who left the courses were shown as current assets of Rs.8,117,626 in the financial statements.	From the year 2017 to the year 2020, Rs.8,117,626 received from the students who left the courses will be removed from the accounts.	Non-recoverable course fee income should be formally written off.
(c) The accounts balances of 07 funds which were started 5 years ago through the grants of Rs.453,417 made by private parties to provide scholarship grants were shown in the financial statements under non-current liabilities instead of being shown under equity.	These grants that shown under non-current liabilities will be credited to the Accumulated Fund and settled	Grants and donations should be recognized under equity as there is no need for repayment.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue -----	Management Comment -----	Recommendation -----
Out of the course fees of Rs.16,495,679 shown in the accounts to be recovered from the year 2017 to the year 2020, the course fees of Rs.8,378,054 had not been recovered till 31 December 2021.	Rs.8,378,054 is the amount due for Masters (MSW) degrees (2018/20) and that amount is to be received in the year 2022 and future years.	Arrears of course fees should be recovered promptly.

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

Reference to Laws, Rules Regulations etc. -----	Non-compliance -----	Management Comment -----	Recommendation -----
Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka Financial Regulations 396 (d)	Although expired cheques should have been canceled and accounted for as payables, In relation to 02 current accounts, 38 cheques with a total value of Rs.154,702 had expired by 06 months but were not processed.	All expired cheques for the year 2021 were taken into the income in September 2022. In the future, I will also arrange to take 06 months expired cheques into the income.	Expired cheques should be accounted as payables in accordance with the provisions of the Financial Regulations.

1.8 Cash Management

Audit Issue -----	Management Comment -----	Recommendation -----
In accordance with the provisions of Section 4(e) of the National Social Development Institute Act No. 41 of 1992, money not required for immediate expenses should be invested in bank fixed deposits. However, from the year 2016 to the reviewed year, as at 31 December of each year, Rs.15,976,657, Rs.14,887,523, Rs.26,079,372,	A fixed deposit of 25 million was started on 30 December 2021, that idle cash was calculated in August 2022 and approval taken from the Governing Council to start fixed deposits.	The provisions of the National Social Development Act should be followed.

Rs.35,291,816, Rs.45,466,608 and Rs.46,263,732 were held in the two bank current accounts respectively. The excess money was not invested in securities or any other suitable investment method, and did not work to improve the financial condition of the institution.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 14,190,332 and the corresponding surplus in the preceding year amounted to Rs.13,141,022. Therefore an improvement amounting to Rs. 1,049,310 of the financial result was observed. The reasons for the improvement are mainly due to increase in government grants by Rs.10,548,228 and payments of allowance , administrative and program expenses by Rs.9,409,162.