

National Human Resources Development Council of Sri Lanka

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the National Human Resources Development Council of Sri Lanka had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report the financial statements have been prepared in accordance with Generally Accepted Accounting Principles give a true and fair view of the state of affairs of the National Human Resources Development Council of Sri Lanka as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

The following observations are made.

(a) The assets costing Rs. 1,675,436 in use at present with a zero carrying value as at 31 December 2010 had not been revalued and brought to account in terms of Sri Lanka Accounting Standard No.18. In response to the observations made in this connection in the year 2005, the Secretary to the Line Ministry informed the Committee on Public Enterprises on 25 November 2010 that action in terms of the Standard will be taken in the year 2010.

(b) A sum of Rs. 4,221,040 received by the Council as the Government Capital Grant had not been brought to account in terms of Sri Lanka Accounting Standards No.24.

1:2:2 Accounting Deficiencies

Even though the gratuities paid during the year should be debited to that Provision Account, a sum of Rs. 91,440 paid in the year 2010 had been debited to the Income and Expenditure Account for the year. In addition, the provisions for gratuity had not been invested in terms of the Payment of Gratuities Act, No.12 of 1983 to meet the future liabilities.

1:2:3 Lack of Evidence for Audit

A Register of Fixed Assets had not been maintained and as such it was not possible to examine the accuracy and the location of the fixed assets of the Council valued at Rs. 6,170,293.

1:2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations, etc. -----	Non-compliance -----
(a) <u>Acts</u>	
(i) Finance Act, No. 38 of 1971 – Section 8(1)	Even though the draft budget should be presented to the Board and approval obtained three months before the commencement of the year of accounts, the budget estimates for the year 2010 had been approved by the Board only on 23 November 2010.
(b) <u>Circulars</u>	
Public Enterprises Circular No.PED/12 of 02 June 2003.	The Corporate Plan prepared for the years 2010-2014 did not include a review of the operating results of the preceding 03 years. As the financial values for the targets to be achieved had not been indicated, the annual progress could not be evaluated in financial terms.
(i) Section 5.1.2	
(ii) Section 5.1.3	Even though the Corporate Plan approved by the Board of Directors should be forwarded to the Line Ministry, the Department of Public Enterprises and the Auditor General at least 15 days before the commencement of the ensuing financial year it had not been so done.

- (iii) Sections 5.2.1 and 5.2.5 A budgeted Income and Expenditure Statement, a Cash Flow Statement and a budgeted balance sheet for the year had not been prepared and presented with the budget.
- (iv) Section 6.5.1 Even though the Draft Annual Report and the Accounts should be rendered to the Auditor General within 60 days after the close of the financial year with copies to the line Ministry and the Department of Public Enterprises it had not been so done.
- (v) Section 7.4.2 A Senior Management Committee had not been established in the National Council.

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Results

The operations of the Council during the year under review had resulted in a surplus of Rs.1,563,052 as against with the deficit of Rs.570,172 for the preceding year, thus indicating a favourable position of Rs.2,133,224. Even though the employees emoluments and the development project expenditure for the year under review as compared with the preceding year had increased by Rs. 2,993,061, the favourable variance had been due to the increase of the recurrent and capital grants from the Government by a sum of Rs. 5,881,118.

2:2 Operating Review

2:2:1 Performance

The following observations are made.

- (a) The expenditure incurred on the development of human resources which is the primary objective of the Council represented a very low percentage of the total recurrent expenditure. Details are as follows.

Year	Total Recurrent Expenditure	Expenditure on Human Resources Development	Expenditure on Human Resources Development as a Percentage of Total Recurrent Expenditure
	Rs.	Rs.	%
2005	5,152,941	884,454	16.4
2006	5,868,600	642,147	11.8
2007	6,086,767	535,632	8.8
2008	6,728,939	659,801	9.8
2009	8,675,394	1,540,029	17.7
2010	12,423,287	3,378,959	27.2

The sum of Rs. 3,378,959 spent in the year 2010 on the development of human resources included a sum of Rs. 2,406,016 spent on a publicity programme carried out in respect of only one project. Apart from that expenditure, the expenditure on the development of human resources represented 7.8 per cent of the total recurrent expenditure.

(b) Establishment of a Data Bank

The Grama Sevaka Division of Malabe North, Kaduwela had been selected for conducting the first pilot survey for the collection of information of persons with different skills in the Island for the achievement of the objective of a database referred to in Section 16 of the National Human Resources Development Council of Sri Lanka Act, No. 18 of 1997 and the Survey had been conducted on 28 March 2010. Even though a period and one year had elapsed since the conduct of the first pilot survey by 09 May 2011, the date of audit, no other steps whatsoever had been taken thereafter for the achievement of the objective.

(c) Survey on Students abandoning Courses

An agreement had been entered into with a Professor of a University on 01 January 2010 to conduct a survey in collaboration with the Vocational Training Authority, National Apprenticeship and Technical Training Authority and the Department of Technical Education and Training, on the reasons for the students to abandon halfway, the courses conducted by them and to obtain a report thereon. According to the agreement, the report should have been submitted on or before 10 April 2010. Nevertheless a draft report only had

been submitted on 05 January 2011. The final report had not been submitted even by 09 May 2011, the date of audit. Out of the provision of Rs. 400,000 made for the purpose, a sum of Rs. 76,875 had been spent.

(d) F-3 Programme

The above programme is a Project commenced on the orders of the Minister for providing a quick training through a Special Vocational Guidance Programme to the students abandoned after failing the General Certificate of Education Advanced Level and the Ordinary Level Examinations and providing job placements for them. The matters revealed at an audit of the programme are as follows.

- (i) Even though the targeted students for the year 2010 had been 23,420 only 9,737 students or 41.58 per cent had participated.
- (ii) The provision of training and job placements for 87,856 students in the first 03 months of the year 2011 had not taken place as expected. Action had not been taken even by 10 May 2011, the date of audit at least for taking follow up action on the current status of the 9,737 who participated in the first training programme.
- (iii) The total expenditure incurred on the Project from December 2010 to April 2011 amounted to Rs. 5,601,870 and out of that Rs. 5,066,419 had been spent on publicity. That represented 90 per cent of the overall expenditure. A sum of Rs. 535,451 or 10 per cent only had been spent on the training programmes.

2:2:2 Meetings of the Board of Directors

The following matters were observed.

- (a) According to Section 3(1) of the National Human Resources Development Council Act, No.18 of 1997, the Council should comprise 20 members. Nevertheless, the Secretary to the Ministry in Charge of the subject of Finance and Planning had not taken action to make the appointments in terms of the above section and the Membership had been limited to 18 members.
- (b) Three meetings of the Board of Directors only had been held in the year under review.

2.2.3 Action Plan

The Action Plan for the year 2010 had been approved by the Board of Directors only on 23 November 2010, that is, one month before the end of the year under review.

2.2.4 Internal Audit

The Council did not have an Internal Audit Unit. An internal audit of the work of the Council had not been carried out even by the Internal Audit Unit of the Line Ministry of Youth Affairs and Skills Development.

2.2.5 Budgetary Control

The following observations are made.

The variances between the budgeted expenditure and the actual expenditure for the year under review in respect of 06 items of expenditure amounted to Rs. 4,108,870. Thus it was observed that the budget had not been made use of as an effective instrument of management control.

3. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Purchase of Supplies and Services
- (b) Preparation of Corporate Plan and Action Plan
- (c) Tabling of Annual Reports
- (d) Internal Audit