

## **National Institute of Labour Studies - 2014**

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The audit of financial statements of the National Institute of Labour Studies for the year ended 31 December 2014 comprising the Statement of financial position as at 31 December 2014 and the Statement of financial performance and Cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 23 of the National Institute of Labour Studies Act, No. 12 of 2010. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2) (c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Auditing Standards of Supreme Audit Institutes (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the Financial position of the National Institute of Labour Studies as at 31 December 2014 and its financial performance and Cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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In terms of Sri Lanka Public Sector Accounting Standard 01, the Statement of changes in equity/ net assets had not been presented along with the financial statements.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Six officers of the Department of Labour and two officers of the Ministry of Labour had been employed in the Institute and salaries amounting to Rs.3,039,599 had been paid in the year under review from the Heads of Expenditure of the Department and the Ministry. This expenditure had not been adjusted to the financial statements of the Institute.
- (b) Even though the van the estimated value of which was Rs.1,250,000 had been used as a pool vehicle of the Institute, it had been included in the non-current Assets and the accumulated Fund in the Statement of financial position without getting transferred its ownership.
- (c) Since the reissuance of a cheque amounting to Rs. 25,000 had not brought to account correctly in the year 2014 due to misplacement of the same paid in August 2013, other revenue and Management allowances had been overstated by Rs. 25,000 in the year 2014.
- (d) Revenue from Course fees totalling Rs. 506,700 related to the year under review had been understated in the accounts.
- (e) Even though stocks should have been shown separately in the financial statements in terms of the Sri Lanka Public Sector Accounting Standard 09, Year-end cost of Stock of the National Institute of Labour Studies had been written off against the profit of the year.
- (f) Instead of capitalization of the equipment valued at Rs. 295,300, purchased in the year under review for lighting the name board of the Institute, it had been brought to account as revenue expenditure. Thus, the surplus and the value of Assets of the year had been understated.

### 2.2.3 Lack of Evidence for Audit

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A sum of Rs. 4,986 had been shown as revalued adjustments in the Financial Statements of the year 2014 and the information required to prove the accuracy of such value was not made available to audit.

### 2.3 Non-compliance with Laws, Rules and Regulations etc.

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The following observations are made.

<b>Reference to Laws, Rules and Regulations etc.</b>	<b>Non-compliance</b>
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(a) National Institute of Labour Studies Act No.12 of 2010 Section 4(e)	Even though an average balance of about Rs. 17 million had remained in the Institute throughout the year, action had not been taken to obtain returns by investing such money.
(b) Financial Regulations of the Democratic Socialist Republic Of Sri Lanka ----- Financial Regulation 396	Action had not been taken as per the financial regulations regarding 07 Cheques issued but not presented for payment for over 06 months amounting to Rs. 40,750.

### 3. Financial Review

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#### 3.1 Financial Results

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According to the financial statements presented, the Financial Result of the National Institute of Labour Studies for the year ended 31 December 2014 had been a surplus of Rs.4,491,642 as compared with the corresponding surplus of Rs.502,932 for the preceding year, thus indicating an improvement of Rs.3,988,710 in the financial result of the year under review. The decrease of annual expenditure by 30 per cent and the increase of income from courses by 17 per cent had mainly attributed to this improvement.

#### 3.2 Analytical Review

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Even though the ratio of expenditure had been 98 per cent as compared with the income during the year 2013, it had decreased up to 79 per cent in the year 2014. Further, the operating income had increased by 17 per cent as compared with the preceding year.

#### **4. Operating Review**

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##### **4.1 Performance**

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The targets included in the Action Plan prepared for the National Institute of Labour Studies and presented by the Ministry of Labour and Labour Relations for the period commencing from the year 2014 to the first quarter of the year 2015 and the observations regarding the progress of achievements thereof are given below.

- (a) A targeted training Programme for the Diploma course on workplace productivity had been conducted. Even though the targeted revenue had been Rs.920,000, revenue received had been Rs.540,000. Thus, the income received therefrom had dropped by a sum of Rs.380, 000.
- (b) Targets had been set to conduct 02 Training Programmes for three day Diploma Course on Human Resource Management, 10 Training Programmes for two day Diploma Courses on Labour and Labour Relations, 09 two day Diploma Training programmes on Human Resource Management. Nevertheless, only 01, 07 and 07 courses respectively had been conducted.
- (c) Targets had been set to conduct 16 Training Programmes for Trade Union Training Course for Executive level Officers. Nevertheless, only 4 courses had been conducted. Even though 12 programmes had not been conducted, only a sum of Rs. 370,000 had decreased from the targeted revenue of Rs. 1,020,000.
- (d) It was observed as per the progress of achieving the above targets that the Institute had fulfilled the financial and physical targets illogically and without a proper study.

##### **4.2 Management Inefficiencies**

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The following observations are made.

- (a) Even though the establishment and the maintenance of libraries and information services was a main objective of the Institute in terms of paragraph 3(d) of the National Institute of Labour Studies Act, No.12 of 2010, the library books had been neither lent nor used over the past few years.
- (b) The Institute had credited a sum of Rs. 89,500, received to the Institute for the year 2011, to the Bank Account of the Ministry of Labour and Labour Relations. It had not been taken back and rectified the accounts as yet.

##### **4.3 Operating Inefficiencies**

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The following observations are made.

- (a) The Stock Register of the Institute had not been maintained and updated as per the Financial Regulation 750.
- (b) Assets of the National Institute of Labour Studies had been assessed on 02 October 2013 and assessed values had been brought to financial statements as the values as at 31

December 2014. The delaying the assessed value by one year had not been taken into consideration.

- (c) Even though the Institute had not been linked with the computer networking programmes or any other computer operating programme, 06 Laptop computers had been purchased for Rs. 1,109,400 in the year under review.
- (d) Even though the former Director General of the Institute had left the Institute on 13 January 2015, the Laptop Computer valued at Rs. 184,900 which had been given to him, had not been returned to the Institute. The Institute had given two Laptop Computers for one officer in respect of the permanent post and the acting post.

#### **4.4 Personnel Administration**

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The approved Cadre of the Institute as at 31 December 2014 had been 45 while the actual Cadre had consisted of 16 employees of the Ministry and the Department. As such, the number of vacancies further existed in the Cadre had been 29. The Institute had made the recruitment only for the post of Accountant in this cadre.

### **5. Accountability and Good Governance**

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#### **5.1 Presentation of Financial Statements**

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Even though the financial statements should be presented within 60 days after the close of the financial year in terms of the Public Enterprises Circular No. PED / 12 dated 02 June 2003, the financial statements had been presented by the Institute only on 28 May 2015, after a delay of 03 months.

#### **5.2 Procurement Plan**

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The Procurement Plan prepared for the year 2014 had not been approved by an authorized officer. Action had not been taken to purchase 03 computer Printers, 03 Fax Machines and a digital Camera planned to purchase in the year under review.

### **6. Systems and Controls**

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

- (a) Accounting
- (b) Budgetary Control
- (c) Personnel Administration
- (d) Financial control
- (e) Procurement activities