

National Human Resource Development Council of Sri Lanka – 2018

1.1 Qualified Opinion

The audit of the financial statements of National Human Resource Development Council of Sri Lanka for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance for the year then ended, statement of changes in net assets and the 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 the Finance Act No 38 of 1971. 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 Council as at 31 December 2018, 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 Council'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 Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Council 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 Council.

1.4 Scope of the Audit

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 Council'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 National Human Resource Development Council 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 Council 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 Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law, or other general or special directions issued by the Governing Body of the Council;
- Whether the Council has performed according to its powers, functions and duties; and
- Whether the resources of the Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements.

Entities are 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.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
In accordance with the paragraph 49 of the Sri Lanka Accounting Standard No. 07, if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued. But out of assets total cost of Rs. 15,129,207, only 06 items of assets total value of Rs. 728,530 had been revalued.	No any asset was revalued in the year 2018. This error was happened at the revaluations done in previous years and instructions had been given to carry out revaluations in accordance with the Standard.	Revaluation should be done in accordance with the Public Sector Accounting Standard

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation -----	Management Comment -----	Recommendation -----
(a) Excess payment of Rs. 219,007 (USD 1400) made to Puthrajaya University in Malasia for a training programme had been returned and that amount had been credited to the Sundry Income Account instead of crediting to the Training Programme Expenditure Account, and therefore, the Training Programme Expenditure and the Sundry Income had been overstated by the same amount. .	Instructions had been given to avoid such mistakes in the year 2019.	Attention should be made to prepare financial statements accurately.
(b) Assets valued at Rs. 416,109 which were physically not available had been included in the value of Plant and equipment in the financial statements of the year under review.	Instructions had been given to correct the financial statements by comparing the physically available balances in the financial statement of 2019.	Attention should be made regarding the physically availability of assets when the accounting of assets.
(c) Computer softwares procured for Rs. 271,262 during the year under review had been accounted as expenditure in the year instead of identified as non current assets.	Instructions had been to remove this amount from the expenditure and capitalized as a fixed asset in the year 2019 and avoid making such mistakes in future	Attention should be given on accounting of assets accurately.

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| (d). Even though capital grants received by the Council a sum of Rs. 9,048,188 had been paid for development expenditure, only a sum of Rs. 6,245,189 had been stated as recurrent nature capital grants in the financial statements. | Instructions had been given to correct this error by journal entries. | Make the necessary adjustments and prepare for the next year's financial statements correctly. |
| (e) A sum of Rs. 250,000 had been allocated to prepare a Labour Market Survey Report in 2016 and the job had been handed over to the University of Colombo, Although it was confirmed that this was not done, the amount allocated for the purpose had been stated in the financial statements as liabilities for more than two years. | Agreed to adjust this allocation in the financial statement in the year 2019. | Necessary adjustments should be made to the financial statements as stated in the reply and Management should focus on getting the job done by a qualified party. . |
| (f) Although only amortization value of the assets purchased through capital grants should be recognized as deferred income in the year, the total amount of depreciation for the year amounting to Rs. 4,101,235 had been identified by the Council. | Since the Council does not have the information to identify the assets purchased from capital grants, the total amount of depreciation for the year was recognized to the Income. | Records should be maintained to identify asset purchased from the government capital grant separately. |

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

The following observations are made.

Reference to the Laws, Rules, and Regulations etc.	Non-compliance	Management Comment	Recommendation
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(a) Paragraph 4.2.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003	The Council meetings should have been hold monthly to monitor the progress of the programs planned by the Council, but only	In terms of the provisions of the Act No. 18 of 1997, the officially elected official should attend the meeting. Due to the	It is observed that the top level officials of the government institutions have been proposed to the Governing Body in the

four meetings had been conducted in the year 2018. Even though meetings were not conducted effectively to meet the requirements of paragraph 4 of the above circular. practical difficulties, it is difficult for all the officers to participate. As a solution to this, action is being taken to amend the Act to change the composition of the Governing Board. launching of the National Level Institute to enable the policy decision making to develop the country's human resources. As mentioned in the answer, while amending the composition the above national importance should be taken in to attention.

<p>(b) Paragraph 14 (1) of the Sri Lanka National Council Act for Human Resources Development No. 18 of 1997</p>	<p>Although the Council should give recommendations and advices to the Minister on the implementation of the National Human Resources Policy and to submit the Human Resources Development Plans and Programs to the Government, observed in the test check that Projects in 2016, 2017 and 2018 that had not happened.</p>	<p>Ministers in charge of the subject participate for discussion of all proposals made by the Council and the Prime Minister has also been informed in this regards. However, due to practical circumstances, it has not been possible to retain written information. However, action will be taken to retain written evidence in future.</p>	<p>Ministers in charge of the subject should be educated and advised on the development of the field in order to achieve the ultimate goal of the programmes implemented by the Council.</p>
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2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 5,596,047 and the corresponding surplus in the preceding year amounted to Rs. 4,167,580. Therefore an improvement amounting to Rs.1,428,467 of the financial result was observed. The reason for the improvement was increase of earnings from the foreign training programmes by Rs. 1,264,793 compared to the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

The increase in Government Grants by Rs. 2,866,786 and increase in income from Foreign Training Programmes by Rs. 1,264,793 were mainly attributed to the increase in total income by Rs. 3,250,808 for the year under review with comparing to the preceding year. Although there was a loss of Rs. 1,068,524 from disposal of assets in preceding year, this amount had decreased to Rs. 177,461, in the year under review. Even though expenditure incurred through the Government Grants for the year under review was increased by Rs. 2,320,569 and utility services expenditure was increased by Rs. 1,012,829, depreciation and maintenance expenditure were decreased by Rs. 1,588,611 and Rs. 409,121, respectively.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
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No information was made available to ascertain the source of the contribution of capital value amounting to Rs. 3,000,000 shown in the Financial Statements.	Information had not been received to the present officers of the institute and further instruction had been given to check in this regards.	The details in this regard should be checked and reported to the audit.

3.2 Operational Inefficiencies

The following observations are made.

Audit Observation	Management Comment	Recommendation
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(a) By paragraph 16 (2) (1) (a) of the Sri Lanka National Council of Human Resources Development Act. No. 18 of 1997, the Council was empowered to take necessary steps to improve the competencies of the officers of the Council with the objective of developing a competent pool of experts in various areas of human	No reply was made.	In order to achieve the objective of initiating the Sri Lanka National Council for Human Resources Development, it is necessary to have a skilled pool of experts in the various sectors and action should be taken in this regards.

resource development. However, a considerable amount of money had been spent annually to obtain outside consultancy services without implementing it and Rs. 1,262,025 had been spent during the year under review.

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| <p>(b) An e-mail management system had been prepared according to the project proposal prepared in the year 2014 and Rs. 106,050 had been spent by the end of the year under review. But that program had not implemented as planned.</p> | <p>This system had faced barriers and could not be carried out as planned due to many reasons such as lack of computer technical knowledge of employees, vacating the institute by trained officers, reluctant to accept e-mails and digital signatures by government agencies.</p> | <p>Attention should be made on the barriers of implementation in the preparation of project proposals.</p> |
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3.3 Un-economical Transactions

Audit Observation

A sum of Rs. 818,399 had been spent to conducted a survey and awareness program on 5 objectives including identifying the socioeconomic status of three wheeler drivers. A sum of Rs. 60,000 had been paid to a consultant appointed without following proper methodology for the preparation of the relevant report of the survey. However, the survey report was not submitted to audit and since there was not a mechanism to implement the programme, the expenditure incurred amounted to Rs.878,399 was a fruitless expenditure.

Management Comment

The Sri Lanka Tourist Board (SLTB) has initiated a program to certify three-wheeler drivers in the tourism industry on the recommendation in the research and it is currently in operation. It also conducts workshops for the persons engage in the profession.

Recommendation

There should be a program to post evaluation the progress of the programs implemented by the council and special attention should be paid to the benefits received.

3.4 Identified Losses

Audit Observation

An investigation should be carried out by an Independent Board of Representatives consisting from various areas which should be appointed by the Chief Accounting Officer in terms of paragraph 4.1 (a) (ii) of the Director General of Public Finance Letter No. PFD / RED / 2015/08 dated 09 October 2015 relating to loss of Rs. 920,885 due to the accident of a vehicle, but no action had been taken in this regard.

Even if an outsider has been found guilty by a court order, action had not been taken to recover the loss from that party and the loss of Rs. 834,846 had been covered from the council's insurance coverage. Accordingly, the No Claim Bonus for the vehicle had been lost and the council had paid the repairs cost of Rs. 86,039 which had not been paid by the insurance.

Management Comment

The insurance company had paid a sum of Rs. 86,039 to Toyota Lanka Company with relevant to this repair. It has been informed that the balance cannot be paid as the vehicle had been brought more than 05 years ago. Due to made this payments had resulted in increased insurance premium and loss of No Claim Bonus.

Recommendation

Action should be taken to recover the loss to the government due to this accident.

3.5 Transactions of Contentious Nature

Audit Observation

Without the approval of the Department of Public Enterprises, the Council had co-ordinated overseas training programs for public sector employees and implemented a profit-making program and a

Management Comment

Action will be taken to obtain necessary approvals for the proper implementation of this program.

Recommendation

As this activity is not relevant to the objectives of the Council, action should be taken to obtain the advice and approval of the Department of Public Enterprises to proceed with it.

sum of Rs. 8,126,660 had been earned from that. The Department of Public Enterprises had informed to credit surplus money to the Government Revenue by their letter No. BD / HR 104 / NHRDC / 09/33 dated 18 December 2017, had not been done so.

4 Accountability and good governance

4.1 Annual Action Plan

The following observations are made

Audit Observation

Management Comment

Recommendation

(a) By the letter of the Secretary to the Ministry of National Policy and Economic Affairs No. DPMM / DG / 037 dated 06th November 2015, Guidelines for the preparation of Organizational Results Frame Work were given by identifying priority areas that government agencies need to focus on in order to achieve their goals, establish core performance indicators so that outputs and outcomes can be measured. But the council had not complied according to that directive.

Relevant officers have been instructed to prepare an Organizational Results Frame Work by 2020.

A Corporate Outcome Framework should be prepared and a mechanism should be developed for continues performance measurement, according to the instructions given,

(b) Two programs in the 2018 Action Plan, which a total sum of Rs.1,050,000 allocated had not been implemented during the year. The evaluation of the overall performance of the Council in the year 2018 could not be done due to the performance indicators, outcomes and results in the action plan prepared by the Council were not clearly mentioned and the financial performance data was not included in the annual performance report.

Necessary arrangements are being made in the next year to prepare proper plans and to achieve the desired performance.

The annual action plan should be prepared on a realistic basis and periodically reviewed and incorporated with necessary revisions to implement the planned programs.

4.2 Internal Audit

Audit Observation

Even though necessary actions should be taken by the Governing Body of that entity to conduct an internal audit of the auditing agency, action had not been taken to conduct the internal audit of the Council even by the end of the year under review.

Management Comment

A request had been made from the line ministry to appoint an Internal Auditor. Accordingly, action will be taken with the direction of the Ministry.

Recommendation

Special attention should be given with regards to conducting of an internal audit of the functioning of the Council.