

Head 221 – Department of Labour

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Labour for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended 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. In terms of Sub-section 11(1) of the National Audit Act, No.19 of 2018, the summary report including my comments and observations on the financial statements of the Department of Labour was issued to the Accounting Officer on 11 June 2019. In terms of Sub-section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Department of Labour was issued on 31 May 2019 to the Accounting Officer. This report read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Labour as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility 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 opinion.

1.3 Responsibility of the Chief Accounting Officer and the Accounting officer for the Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Department 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 Department.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Chief Accounting Officer and the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

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 summary 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 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 Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5. Report on Other Legal Requirements

As required by Sub-section 6 (d) of the National Audit Act, No.19 of 2018, I state the followings:

As there was no requirement of preparation of financial statements by the Department of Labour for the preceding year, I could not state that the financial statements of the year under review are consistent with the preceding year. As such, recommendations on financial statements had not been made by the Department as well.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Even though repayments of Rs.2,982,850 from revenue during the current year should be deducted from receipts of revenue, it had been adjusted by the Adjustments Account.	Financial statements should be prepared in accordance with specific instructions and guidelines indicated in the State Accounts Circular No.267/2018 of 21 November 2018.	This error had occurred due to a delay. Necessary steps have been taken to avoid such errors in the ensuing years.
(b) The credits made by cash and cross entries to the Advances Account totalling Rs.110,617,011 should be considered as receipts. However, only credits by cash totalling Rs.76,858,830 had been entered as receipts from Advances Accounts. As such, receipts of advances had been understated by Rs.33,758,181 in the financial statements.	-do-	The figures in the Advance Account of Format ACA-F of the financial statements should be similar to those presented in Format ACA-5. Accordingly, receipts for Advances Accounts by cash and cross entries amounted to Rs.104,504,886. Nevertheless, the value of cross entries could not be included in the statement of financial performance due to a delay.
(c) According to the monthly accounts summaries, other receipts totalled	-do-	This error has occurred due to failure in including the value of cross entries in the statement of

Rs.703,095,430. However, only a sum of Rs.544,272,356 had been shown as non-income receipts due to failure in considering the receipts from cross entries by the Department. Accordingly, the value of other receipts had been understated by Rs.158,823,074 in the financial statements.

financial performance. Necessary steps have been taken to avoid such errors in the ensuing years.

- (d) It was revealed during the examination of monthly accounts summaries that a sum of Rs.5,409,982 has been spent for the other Head of Expenditure during the current year. However, the said amount had been shown in the Adjustments Account as Rs.149,550, thus overstating by Rs.5,260,432. Transactions carried out through cross entries should be applied in the preparation of financial statements in terms of the circular. Only the expenditure of Rs.149,550 incurred for the Head 253 had been included in the Adjustments Account.
- (e) Even though debits during the year by cash and cross entries as payments of advances amounted to Rs.107,715,724 only Rs.68,328,042 paid as advances by cash had been shown in the statement of financial performance. -do- The figures in the Advance Account of Format ACA-F of the financial statements should be similar to those presented in Format ACA-5. Accordingly, receipts for Advances Accounts by cash and cross entries amounted to Rs.101,603,200. Nevertheless, the value of cross entries could not be included in the statement of financial performance due to a delay. This error has occurred due to a delay. Necessary steps have been taken to avoid such errors in the ensuing years.
- (f) Action had not been taken to adjust by the Adjustment Account, the differences of the balances of receipts of advances and the balances of advance payments (debits) amounting to Rs.9,348,085 and Rs.3,869,478 respectively between monthly accounts summaries and Treasury computerised prints. -do-

1.6.2 Cash Flow Statement

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The adjusted balance expenditure incurred by and for other Ministries and Departments under operating activities in the cash flow statement amounted to Rs.1,620,278,717. However, spending cash under operating activities had been understated by Rs.140,479,996 due to including only a sum of Rs.1,479,798,721.	In the computation of personal emoluments and operating expenditure, relevant cross entries as well should be considered in terms of circular instructions.	This error has occurred due to difficulty in properly identifying certain cross entries and necessary steps have been taken to avoid such errors in future.
(b) The adjusted expenditure incurred by and for other Ministries and Departments for acquisition of physical assets, amounting to Rs.1,819,381,077 should be included in the cash flow statement under investment activities. However, only a sum of Rs.1,813,415,443 had been shown as cash outflows under investment activities.	Transactions carried out through cross entries should be applied in the preparation of financial statements.	This error has occurred due to difficulty in correctly identifying certain cross entries and necessary steps have been taken to avoid such errors in future.

1.6.3 Property, Plant and Equipment

Audit Observation	Recommendation	Comments of the Accounting Officer
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A sum of Rs.1,524,443,966 had been spent during the year under review for constructing the "Mehewara Piyasa" building.	Action should be taken to report assets accurately and to properly maintain	The opening balances have been computerized on 31 August 2018 and as such, it appears in the CIGAS

Accordingly, the cost of the documents relating Programme as an opening building amounting to thereto. balance relating to the year Rs.8,291,590,160 as at the end of 2018. Even though the values of the current year had not been paid by vouchers were shown under non-financial assets. accurately inventoried according to the CIGAS Programme, the Department of State Accounts had been informed of a problematic situation on reflecting these values being further added to the opening balance. However, no solution had been received.

1.6.4 Responsibilities of the Chief Accounting Officer

 The following observation is made.

Audit Observation	Recommendation	Comments of the Department
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<p>The Chief Accounting Officer and the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carried out and carry out those reviews in writing and present a copy to the Auditor General. However, statements that such reviews were carried out, had not been made available to Audit.</p>	<p>Action should be taken in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018.</p>	<p>Not commented.</p>

1.6.5 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with provisions in laws, rules and regulations were as follows.

Audit Observation	Recommendation	Comments of the Accounting Officer	
<p>Reference to Laws, Rules and Regulations</p>	<p>Non-compliance</p>		
<p>(a) Sections 12(2) and 13(2) of the Factories Ordinance No.45 of 1942</p>	<p>The Minister may, by regulations, prescribe a standard of adequate ventilation and lighting for factories. However, such suitable standards had not been secured even by the date of Audit.</p>	<p>Action should be taken in terms of provisions in the Ordinance.</p>	<p>In terms of Sections 12(2) and 13(2) of the Factories Ordinance No.45 of 1942, securing a suitable standard of lighting as Regulation 1965 (common lighting standards) has been prescribed and standards formulated for updating them have already been referred to the Ministry of Labour and Trade Union Relations.</p>
<p>(b) Circulars of the Department of Labour</p>			
<p>i. Paragraph (4) of the Circular No.10/2004 of 16 August 2004</p>	<p>A number of 55,142 reports relating to 74,773 inquiries held by Labour Officers relating to 40 District Labour Offices had been submitted with a delay over 07 days contrary to circular provisions.</p>	<p>Activities relating to inquiries should be finalized and the relevant reports submitted within prescribed periods.</p>	<p>A formal procedure is implemented by paying attention at progress review meetings held at regional level for minimization of delays.</p>
<p>ii. Circular No.06/2011 of 29 April 2011</p>	<p>Out of 24,972 public complaints received in the year, the number of</p>	<p>The Department should follow an effective and efficient methodology for</p>	<p>Replies not submitted.</p>

complaints not solving public
 inquired stood at grievances and
 10,064 representing complaints.
 40 per cent of the
 total complaints.

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The savings out of the total provisions relating to 13 Capital and Recurrent Objects amounted to Rs. 398,530,928 in the year under review and the savings out of those Objects were ranging from 12 per cent to 81 per cent.	Action should be taken to prepare estimates of expenditure on a rational and accurate basis at maximum level in terms of Financial Regulation 50.	Reasons such as non-occurrence of motor vehicle repairs as expected, non-receipt of goods ordered on the due date, unavailability of a bidder who had filled qualifications according to specifications, non-receipt of adequate imprests from the Treasury, savings of provisions and failure in acquisition of relevant lands for construction had been indicated as reasons for savings relating to all Objects mentioned in the report.
(b) A sum of Rs.11,000,000 had been allocated for the Project on Re-registration of members of the Employees' Provident Fund and providing them with new membership numbers. No function whatsoever had been performed in the current year under the said Project and the entire provisions made had been transferred to other Objects.	-do-	As this function is an additional duty assigned to the Departmental staff, it could not be engaged full time. As such, the activities of the Project could not be carried out. As a result, the sum of Rs.11,000,000 allocated therefor had been saved.
(c) The reasons for savings of Rs.12,670,580 relating to 03 Objects had not been indicated in the financial	Reasons for savings of moneys should be indicated in the financial statements.	Failure in completion of orders on the due date, unavailability of suppliers in compliance with Departmental specifications and

statements.

economical usage of electricity had been indicated as reasons for savings relating to all 03 Objects mentioned in the Draft Report.

2.2 Incurring of Commitments and Liabilities

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The amount to be settled as at 31 December 2017 for constructing the “Mehewara Piyasa” building was Rs.377,147,334. As no amount whatsoever was allocated during the year 2018, it had not been revealed as a settlement or liabilities.	Action should be taken speedily as possible to settle the moneys of the Provident Fund, created with the contributions of the employees of the private sector.	Even though provisions had been allocated in the year 2017 therefor, this payment could not be made due to non-receipt of adequate imprests. Necessary provisions had not been made by the Treasury through annual estimates of the year 2018 and additional provisions Provisions of Rs.377,148,000 had been made therefor in the annual estimate of the year 2019 and Rs.120 million has been reimbursed to the Central Bank of Sri Lanka by now.
(b) Liabilities of the preceding year amounting to Rs.1,219,200 relating to 10 Objects exceeding the value of liabilities recorded in the financial statements, had been settled in the year 2019.	Action should be taken to obtain information as accurate as possible from sub-offices and include liabilities in the financial statements.	As the Department is decentralized, only the information reported to us by identifying as liabilities from all those Divisions, have been included in the financial statements. However, these differences occurred due to submitting of vouchers for payments extraneous to liabilities, reported from the said Divisions.

2.3 Deposit Balances

 The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
----- (a) Even though recovered by cases filed in courts of the Colombo District against employees, the balance remained as at 31 December 2018 in the Deposits Account without making payment, amounted to Rs.301,469,360. Out of that, the balance between 3 years and 8 years amounted to Rs.25,163,394. Moreover, out of the balance of Rs.150,056,545 recovered by cases through District and labour Sub-offices, deposit balances older than 05 years as at 31 December 2018 totalled Rs.48,184,481.	----- Efficient and effective measures should be followed in confirming the receipt of provident funds recovered by legal proceedings, gratuity, salaries and other relevant payments to employees, to beneficiaries receivable of the said moneys duly.	----- Out of this, the balance remained as at 07.06.2019 amounted to Rs.247,509,759 while the balance unpaid between 3 and 8 years as at that date was Rs.21,863,372. The payment of these moneys had delayed due to reasons such as Employees' Provident Fund deposits, inability of making payments until the total amount is collected, owners of deposited moneys proceeding abroad, waiting until nominees appear due to death of owners of moneys. However, instructions have been given to the relevant District Offices to identify owners quickly and to settle them as owners face severe hardships due to delays that occur in calling back those moneys as a result of crediting general deposits lapsed in this manner, to the Revenue.
(b) The balance of compensation remained unpaid even by 31 December 2018 deposited in favour of the Commissioner General of Labour by private institutions for payment of employees' compensation amounted to Rs.69,466,119. Out of the said compensation, the balance moneys payable over a period of one year was Rs.53,284,103.	A methodology should be prepared and implemented to enable the relevant beneficiary to receive compensation efficiently and duly.	Out of this outstanding amount, the balance recoverable by 07.06.2019 and the balance over 1 year recoverable as at that date amounted to Rs.68,890,469 and Rs.52,708,453 respectively. Out of this, the sum of Rs.32,804,685 is payable as compensation of the employees of Kabool Lanka (Pvt) Ltd. and the said compensation had not been paid due to an internal problem of the company. The balance of Rs.36,085,784 are for all other institutions. These payments cannot be paid due to

reasons such as change of addresses of certain employees entitled for this compensation, incompatibility of information in requisition forms with information submitted by those entitled persons and persons entitled to compensations proceeding abroad.

(c) Employees' Provident Gratuity etc, had not been paid to the employees who were deployed in the service of the Sri Lanka Transport Board. As such, the balance retained as at 31 December 2018 in the General Deposit Account without making payment despite having recovered from the Board, was Rs.66,762,658. Even though a period over 05 years had lapsed after the recovery of Rs.62,021,189 out of the said moneys, no moneys whatsoever had been paid to the employees during the year 2018.

The balance over 5 years by 07.06.2019 amounts to Rs.61,417,010. The balances payable to persons who had not submitted requisition forms remain unpaid still and those moneys can be sent to the Sri Lanka Transport Board only if there is a saving after all gratuity recipients are paid with the relevant gratuity. As gratuity should be paid to them in instances of solving existing problems, these deposits have to be further retained.

3. Operating Review

3.1 Delays in Execution of Projects

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Even though a sum of Rs.49,775,346 had been released to the Department of Buildings in the year 2017 for constructing the District Labour Offices of Badulla and Ratnapura,	Action should be taken to commence projects as planned.	Replies not submitted.

only the procurement activities thereof had been commenced even by the end of the year under review.

- (b) A sum of Rs.29,850,123 -do- had been released to the Department of Buildings in the years 2016, 2017 and 2018 for constructing the Hatton District Labour Office to an estimated value of Rs.174,570,000 and the progress of constructions by the end of the year under review had been only 12 per cent.

Replies not submitted.

3.2 Assets Management

The following observation is made.

Audit Observation

Recommendation

Comments of the Accounting Officer

The server purchased for Rs.699,713 for the Labour Inspection System Application, has been received on 21 August 2018 and it had not been made use of over a period of 04 months, even by the date of Audit.

Action should be taken to carry out efficiently.

Discussions had been held with the persons who had developed the software relating to the Lisa System to develop it further with the installation of the server for the Lisa Programme and necessary activities are due to be carried out in future.

4. Good Governance

4.1 Rendering of Services to the Public

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Payments of Rs.93,092,779 deposited in courts by employers relating to 181 cases, could not be made due to various shortcomings in "C" Forms and requisition forms prepared by the Labour Office for payment to relevant employees.	Action should be taken to promptly provide moneys recovered by courts to relevant beneficiaries.	Employees' Provident funds cannot be accounted in individual accounts due to various shortcomings in "C" forms and most of "C" forms, are forms returned after referring to the Central Bank of Sri Lanka having been received to this Division due to various shortcomings. Moreover, action is being taken to correct the shortcomings by forwarding to the relevant District Office. Instances of inability to make payments on shortcomings of requisition forms, have not been reported.
(b) Instead of taking prompt action to account contributions valued over Rs.10 million not credited to members' accounts due to non-receipt of correct "C" Forms and contributions of several institutions, through Labour Offices, the said contributions had been retained in the Contributions Account of the Central Bank.	-do-	Out of the 23 institutions of which a sum over Rs.10 million is retained in the Account of the Commissioner of Labour, except for a few institutions, action has been taken by now to settle the moneys of the remaining institutions.
(c) According to court decisions, even though it should be credited to the beneficiaries' accounts, the amount retained in District Labour Offices without being so credited	-do-	As many institutions are closed down, practical issues in preparing "C" Forms are a common feature. A large amount of money remains in the Account of the Commissioner of Labour due to failure in

even by the end of the year under review due to shortcomings in "C" Forms, amounted to Rs.43,691,239.

preparing "C" Forms in this manner. Moreover, the possibility of a rise in such situations in newly collected cases is at a relatively low level due to the Proportional Accounting Method implemented at present.

- (d) Out of the entire number of institutions of 146,468 relating to 40 District Labour Offices to be held inquiries, inquiries had not been held relating to 75,086 institutions or 51 per cent had not held inquiries in the year under review. Action should be taken to hold labour inquiries timely. Replies not submitted.
- (e) A sum of Rs.425,532,833 relating to 4,207 court cases for which decisions had been given during the year under review, had not been provided to the relevant recipients even by the end of the year. Action should be taken to provide the relevant recipients with the benefits received from court decisions. There is a possibility of such situations due to shortcomings in "C" Forms relating to contributions recovered from cases. Moreover, various methods are followed in the settlement of these moneys.
- (f) The total number of dormant cases as at 31 December 2018 stood at 4,921 and the value to be recovered on the said cases amounted to Rs.1,547,622,904. Cases older than 05 years of them stood at 3,186 and it represented 65 per cent of the total number. Moreover, the number of cases for which open warrants were issued, stood at 2,994 and the value thereof was Rs.933,751,835. Out of them, the number of cases older than 05 years stood at 2,047 and it represented 68 per cent of the total number. Action should be taken to minimize delays relating to legal procedures as a result of the delays of the Department. The Legal Division has initiated various measures for recovery of statutory moneys recoverable to employees by activating cases which are dormant and with open warrant relating to these cases in the Labour Offices in the island at present.

5. Human Resources Management

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) In terms of paragraphs 2 and 3 of the Public Administration Circular No.02/2018 of 24 January 2018, a Human Resource Development Plan had not been prepared relating to the year under review.	A Human Resource Development Plan should be prepared in terms of Public Administration Circulars.	Action is being taken to prepare the Human Resource Development Plan relating to the year 2019 in terms of the Public Administration Circular No,02/2018 of 24 January 2018.