

1.1 Qualified Opinion

The audit of the financial statements of the National Institute of Labour Studies for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in net assets 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 2019 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 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 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 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 Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made in this regard.

Non- compliances with reference to the relevant standard	Comments of the Management	Recommendation
(a) Standard No. 02	I accept. Cash flow statements will be submitted under adjustment notes when cash flow statements are presented for the ensuing year.	Since the institution follows the Sri Lanka Public Sector Accounting Standards, action should be taken to prepare the cash flow statement in compliance with the Sri Lanka Public Sector Accounting Standards.
(b) Standard No. 03	I will make arrangements to advise the Accountant in writing to eliminate the cost and depreciation related to the assets sold in the preparation of accounts for the year 2020 and to identify the profit and loss	It is required to identify relevant cost and accumulated depreciation and to eliminate them from the accounts and to calculate the profit / loss as per standard

assets had been brought to accounts as an income of the year without taking action to identify the cost and accumulated depreciation included in the financial statements relevant to that and to eliminate cost and accumulated depreciation from the financial statements and to identify the profit / loss in selling the assets and to account the profit / loss.

of selling the assets and to take necessary action in that regard.

number 03 in eliminating assets.

1.5.2 Accounting Deficiencies

The following matters are observed in this regard.

Audit Observation	Comments of the Management	Recommendation
(a) According to Bank Reconciliation Statement for December 2019, an income of Rs. 148,000, which had been directly credited to the Bank in December 2019 had not been brought to accounts as an income for the year. As a result, the income for the year had been understated by that amount.	The direct deposit balance of Rs. 148,000 credited to the Bank in the year 2019 cannot be considered as an income of the National Institute of Labour Studies, until it is correctly identified.	A proper internal control system should be introduced for the immediate identification of the direct income.
(b) According to the report of the survey of goods carried out for the year 2019, there was a shortage in five items of fixed assets valued at Rs.471,162 mentioned under plant and equipment in the Financial Statement. As a result, the value of the plant and equipment was overstated in the financial statements.	A proper investigation is being carried out in relation to the changes that were pointed out and action will be taken to arrange a proper methodology in relation to the security of the assets of the organization in the future.	Action should be taken to manage assets properly.

1.6 Accounts Receivable

The following matters are observed in this regard.

Audit Observation	Comments of the Management	Recommendation
(a) The debtors' balance receivable by the final date of the year under review was Rs. 9,385,847. The debtors' balance outstanding over 90 days was 87 per cent of the total debtors' balance receivable. An income of Rs. 3,018,650, receivable for the programmes conducted during the year 2017 was also included in that debtors' balance.	Necessary arrangements have been made to submit a review on debtors to the Board of Governors on 03.06.2020.	Attention should be focussed on the expeditious recovery of money receivable to the institution and efficient and effective strategies should be used in this regard.

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

The following matters are observed in this regard.

Reference to Laws, Rules, Regulations etc.	Non- compliance	Comments of the Management	Recommendation
(a) Management Service Circular No. 2018/03 of 18 July 2018	Resource Contribution Allowances amounting to Rs. 210,000 for one day training workshops had been over paid on the approval of the Board of Directors exceeding the approval given by the Department of Management Services.	Relevant payments were made after obtaining the approval of the Board of Governors to obtain the services of high-quality resource persons. Resource persons with expert knowledge do not come forward to provide services for the amounts mentioned as resource allowances by the letter bearing No. DMS/1567 of the Department of Management Services.	The approval of the Department of Management Services should be obtained to make payments beyond the approved limits.
(b) Public Administration Circular No. 02/2018 of 24 January 2018	According to the Circular, the institute had not prepared a human resource development plan.	A Human Resource Development Plan has been prepared by the National Institute of Labour Studies. It is planned to present it at the next meeting of the Board of Directors.	An appropriate human resource development plan should be prepared as per the Circular.

2. Financial Review

2.1 Financial results

The operating result for the year under review was a surplus of Rs.210,316 and the corresponding operating surplus for the previous year was Rs.8,573,023. Accordingly, a deterioration of Rs. 8,362,707 was observed in operating result. The main reason for this was the decrease in the operating income of the Institute by Rs. 11,907,051 as compared to the previous year.

2.2 Trend Analysis of Major Income and Expenditure Items

The following matter is observed in this regard.

During the year under review, the Ministry of Labour had reimbursed a sum of Rs. 10,768,853 for recurrent expenditure and the income earned by the Institute including courses and investment income of fixed deposit was Rs. 34,124,988. However, the deficit was Rs.10,556,537 as the operating expenses for the year was Rs.44,683,525. This was the highest deficit during the last 05 years. Therefore, it was observed at the audit that there was a problematic situation on going concern of the Institute without receiving the grants of the General Treasury.

3. Operational Review

3.1 Operational Inefficiencies

The following matters are observed in this regard.

Audit Observation	Comments of the Management	Recommendation
The functions of publishing magazines, journals, periodicals and books on labour studies and taking action to establish a Division of Studies for Trade Unions as mentioned in Section 17 of the Act, which are among the functions to be performed by the Institute of Labour Studies as stipulated in the National Institute of Labour Studies Act No. 12 of 2010 had not been performed by the Institute until the year under review.	Since the funds provided by the General Treasury to the Institute were very much limited, the journals, periodicals and books mentioned in the Act could not be published. However, a paper has been submitted to the Board of Governors scheduled to be met on 03.06.2020 in order to establish a Research and Publication Division. I will act accordingly. New staff and space are needed to establish a Division of Studies for Trade Unions. This service provides services to the trade unions free of charge rather than earning from this service. Therefore, it is difficult for the institute to carry out that task at this juncture.	The long-term strategic planning should be formulated and implemented by the Institute to achieve the objectives of establishing the institution, which are stipulated in an Act of Parliament.

3.2 Management Deficiencies

The following matters are observed in this regard.

Audit Observation	Comments of the Management	Recommendation
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Even though a van, donated to the Workers' Education Division of the Labour Department by the United Nations Development Programme in 2001, had been handed over to the Institute when it was established as the National Institute of Labour Studies in 2008 after the Division had been detached from the Department of Labour, this vehicle had not been formally transferred to the Institute. Running of this vehicle had been stopped due to technical faults of the vehicle. However, the Department of Motor Traffic had confirmed that a private owner had a van with a registration number that was similar to the registration number of this vehicle.	A complaint has been lodged with the Colombo Fraud Investigation Bureau on 06 January 2020 under No. IR / 05/07/2020 regarding this van bearing No. 62-5101 owned by the Institute. We have been informed by the Fraud Investigation Bureau that a court order has been obtained by requesting that the original file of this vehicle be handed over to commence the investigation in this regard and the court order has been submitted to the Department of Motor Traffic. However, the original file has not been received by the Fraud Investigation Bureau until 03.06.2020.	Existing issues on the ownership of all assets need to be resolved and controlling mechanisms should be put in place to ensure that they are properly brought to accounts and their security is ensured.

3.3 Human Resource Management

The following matters are observed in this regard.

Audit Observation	Comments of the Management	Recommendation
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(a) Six (06) Posts out of 09 senior level posts in the Institute of Labour Studies remained vacant by 31 December 2019 and it was observed at the audit that the shortage of staff had also contributed for non-performance of major functions, for which this Institute had been established, such as undertaking research and carrying out surveys and providing courses of studies related to labour studies and publication of magazines, periodicals and other	The Board of Governors had discussed the matter and decided that the position should be determined by the extent to which the institution expands. According to the letter sent by the Department of Management Services bearing No. DMS / 1567 of 16/12/2019, permission has been granted to fill the vacancies in the cadre existed as at 30 June 2018. As recruitment had not been made for the Post of Director (Training and Development) by June 2018, recruitment for this post could not be	Action should be taken to fill the required vacancies by making requests from the General Treasury and to utilize the human resources up to the maximum efficiency in order to achieve corporate objectives.

publications. Although training programmes are conducted as one of the major functions of the institute, the Post of Director (Training and Development) approved for the staff of the institute has been vacant since the year of inception of the institute.

- (b) A person who had not fulfilled the qualifications required for the Post of Accountant as per the Scheme of Recruitment had been recruited for the post of Accountant by the Institute in the year 2011 and the Department of Management Services had informed that it could not agree with this appointment. However, the Institute had not taken necessary action to rectify this situation up to the date of this report.
- The Board of Governors had met on 12 February 2019 after receiving the letter bearing No. DMS/1567 of 27.11.2018. The issue in relation to the Post of Accountant was again discussed under Paper No. 259 and the above letter was tabled. Profound discussions were made at 39th and 40th meetings (Paper No. 271) and it has been decided to make the permanent appointment.
- Management should take action in relation to the staffs in accordance with the scheme of recruitment and in accordance with the Circulars and instructions issued by the Department of Management Services.
- Therefore, I kindly inform you that I do not agree with the observation indicating that action had not been taken to the letter bearing No. DMS / 1567.

4. Accountability and Good Governance

4.1 Annual Action Plan

The following matters are observed in this regard.

Audit Observation	Comments of the Management	Recommendation
(a) Even though the Institute had planned to conduct two diploma courses with an estimated income of Rs.600,000 under the scope of Labour Law and Industrial Relations during the year under review, these courses had not been conducted.	Even though it had been scheduled to commence the Diploma Course in Human Resource Development in collaboration with the Department of Samurdhi Development, it was informed that the course could not be commenced due to non-availability of provision required by that Department. Further it was not possible to conduct courses in September, October and November in the year 2019 due to the inability of conducting workshops owing to Easter attacks and as it had been scheduled to shift the institute from Battaramulla and to relocate it at Narahenpita.	It is the responsibility of the Management to prepare an action plan that can be implemented and to make necessary arrangements for its implementation.

