

1.1 Qualified Opinion

The audit of the financial statements of the National Institute of Occupational Safety and Health 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 equity 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 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 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 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 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 Sub-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 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 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

The following matters are observed in this connection.

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
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<p>(a) Standard No. 02</p> <p>Net cash flows under operating activities, financial activities and investment activities had been overstated by Rs. 165,000, Rs.6,800,844 and Rs. 11,963,481 respectively, contrary to the Sri Lanka Public Sector Accounting Standard 2.</p>	<p>Instructions were given to prepare cash flow statements in the ensuing year in compliance with the Standards and rectifying the errors as pointed out by Audit.</p>	<p>The Institute should make arrangements to prepare the cash flow statement in terms of the Standard.</p>

(b) Standard No. 03

Even though errors amounting to Rs.3,021,272 revealed in the audit of financial statements pertaining to the year ended 31 December 2018 had been corrected, those corrections had not been adjusted retrospectively and restated the comparative figures in the financial statements as per the provisions in 47,48 and 50 of the Sri Lanka Public Sector Accounting Standard 03.

I noted down to present the accounting records in future subject to the relevant Accounting Standards as pointed out by Audit.

The Institute should take action to make the necessary presentations in correcting the errors in terms of the Standard.

(c) Standard No. 07

(i) Since useful life of the fixed assets had not been reviewed annually, assets costing Rs.7,132,880 were further in use despite being fully depreciated as at the end of the year under review. However, action in terms of Sri Lanka Public Sector Accounting Standard 03, had not been taken to revise the estimated error occurred.

The unused equipment identified by the Board of Survey 2019, has been disposed on 30 June 2020. Further, instructions have been given to the Accounts Division to revalue and account for the usable equipment in the year 2020.

In terms of the Standard, useful life of the fixed assets should be reviewed annually and the depreciable amount should be determined.

(ii) Even though assets should be depreciated only over its useful life in terms of Sri Lanka Public Sector Accounting Standard 07, the Institute had depreciated the assets on the basis of being fully depreciated in the year of purchase and the year of sale of assets. As such, expenditure on depreciation amounting to Rs.374,104 had been overstated in the financial statements pertaining to 15 items of assets purchased at a cost of Rs.6,692,704 during the current year.

Even though the depreciations pointed out in audit had been computed on the basis of the date of purchase in the year 2019, the depreciation in the preparation of accounts had been done by the Institute on the policy of depreciation for the entire year of purchase. It has been disclosed in the financial statements under Disclosure Note 02.

In accordance with the instructions stipulated in the Standard, assets should be depreciated over its useful life and accordingly, the depreciation policy of the Institute should be changed.

(iii) At present, the Institute is functioned at a building constructed on a land of 0.1840 hectares in extent which was owned by the Department of Labour in Jawaththa and a sum of Rs.21,140,552 had been spent on the renovation work of the building up to 31 December 2019. Even though the ownership of asset had not been transferred to the Institute even

This building had been given to the Institute from its inception by the Department of Labour without a monthly rental basis. The maintenance work, proper renovation of assets and also the improvements to the building are being carried out by our Institute and thereby, an income

According to the guidelines of Standard, lack of legal ownership of the land where the Institute is located, should be adequately disclosed in the financial statements.

by 05 August 2020, lack of ownership of the land and buildings where the Institute is located, had not been disclosed in the financial statements in terms of paragraph 87(9) of Sri Lanka Public Sector Accounting Standard 07.

is being generated and services are being rendered to the general public.

I noted down to disclose it in the financial statements in future as per the Standard 07.

1.6 Accounts Receivable

The following matters are observed in this connection.

	Audit Observation	Comment of the Management	Recommendation
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(a)	Even though a sum of Rs.7,623,444 had been shown in the financial statements as receivables from the Ministry of Labour as at 31 December 2019, the said liability had been shown as Rs.4,074,197 in the financial statements of the Ministry of Labour as at that date. As such, the receipt of balance amounting to Rs.3,549,247 was doubtful.	Even though the Institute had submitted bills for a sum of Rs.7,623,444, the Accounts Division of the Ministry had stated that a sum of Rs.4,074,197 has been shown in the financial statements as liabilities of bills payable to the National Institute of Occupational Safety and Health by the Ministry on the provisions saved.	It should be verified that the Accounts Division of the Ministry has been made aware of the money receivable from the Ministry as at the end of the year and it was included in the financial statements of the Ministry.
(b)	The debtor balance of the Institute as at 31 December of the year under review amounted to Rs.9,265,761 and according to the age analysis of debtors, debtor balance of Rs.3,348,710 out of the above was older than 90 days. Nevertheless, no action had been taken to recover the said money.	I agree with the debtor balance of Rs.3,348,710 which was older than 90 days as at 31 December 2019 according to the age analysis of debtors and it is informed that, action has been taken by 31 August 2019 to recover money from all debtors except the debtors of Rs.803,525.	A timely review on debtors should be carried out and expeditious steps should be taken on the unrecoverable balances.

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

The following matters are observed in this connection.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comment of the Management	Recommendation
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(a)	Sections I(b) and II of the Circular No.03/2018 dated 18 July	(i) Even though the allowances paid to the employees of the Institute should be increased on the	After referring to the Board of Directors and considering the net income, approval has been given for the additional work done with the intention of encouraging them.	A proper procedure for the payment of allowances should be formulated and the approval of the

<p>2018 of the Department of Management Services.</p>	<p>prior approval and recommendations of the General Treasury, a payment of Rs.369,894 had been made by obtaining only the approval of the Board of Directors without the said approvals.</p>	<p>Approval for the said allowance has been sought by the Institute from the Department of Management Services through the Ministry of Labour and it is expected that approval would be received after submitting the observations of the Ministry within the next few days. I inform that all allowances have already been suspended.</p>	<p>Department of Management Services should be obtained.</p>
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<p>(ii)When making payments for the resource persons participated in the courses conducted by the Institute, allowances for resource persons amounting to Rs.1,022, 750 had been paid during the year under review exceeding the limits approved by the Department of Management Services.</p>	<p>Engaging the professionals of occupational safety and health sector (such as medical officers, engineers) as the lecturers of those courses and making payments less than those of other institutions had caused the said situation. Requests in this connection had been made to the Department of Management Services and I confirm that the observations thereon have been sought from the Ministry of Labour by the said Department after considering the relevant matters.</p>	<p>A proper procedure for the payment of allowances should be formulated and the approval of the Department of Management Services should be obtained.</p>
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2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 28,130,642 and the corresponding surplus in the preceding year amounted to Rs. 21,506,251. Thus, an improvement of Rs. 6,624,391 was observed in the financial result. The main reason for this improvement had been the increase in the operating income by Rs. 12,994,110.

3. Operating Review

3.1 Procurement Management

The following matters are observed in this connection.

	Audit Observation	Comment of the Management	Recommendation
(a)	According to a decision of the Board of Directors in the year 2015, a private institution had been selected to perform the blood sample test. Even though repeat orders may be authorized provided that not more than a 06 month period has lapsed from the date of award of the original contract in terms of 3.6.1 of the Procurement Guidelines, blood tests had been performed only through the said institution for 05 years continuously from the year 2014 to 2019. In the meantime, approval of the Board of Directors had also been granted to increase the charges for 3 types of tests by Rs.300 each.	I agree that the service of the said institution has been obtained since the year 2014. However, this institution charges a very low price as compared to the prices offered by other institutions. Moreover, the price has been increased only by Rs.300 over the past few years. Furthermore, an expert of this institution visits the relevant factories with the Institute to perform a blood test and no additional price therefor is charged as well. Due to the aforementioned reasons, services from the said institution had obtained continuously.	In case of procurement activities, instructions and guidelines specified in Procurement Guidelines should be complied with, as much as possible.

3.2 Human Resource Management

The following matters are observed in this connection.

	Audit Observation	Comment of the Management	Recommendation
(a)	The Institute had not taken action to prepare a Human Resource Development Plan in terms of the Public Administration Circular No.02/2018 of 24 January 2018 under the heading of Development of Human Resources in Public Service.	Training opportunities have been provided after identifying the training requirements of various sectors pertaining to the human resource development of the Institute. Further, I noted down to include the matters in the Development Plan as prescribed in the Circular.	The Institute should ensure that human resource development is being taken place in terms of the Public Administration Circular.
(b)	In terms of Section 9 (11) of the National Institute of Occupational Safety and Health Act, No.38 of 2009, there shall be appointed such number of persons to be Directors of the Institute, as shall be necessary for the efficient administration of the Institute and the Council shall appoint a Director of the Institute as the Secretary in terms of Section 06. Nevertheless, vacancies existed in 6 posts of Directors pertaining to the high ranking 7 posts of the Institute.	The Directors of National Institute of Occupational Safety and Health have approved the number specified in audit and action will be taken in future to make recruitments for the said posts based on the requirement of Institute.	Officers required for the efficient and productive functioning of Institute, should be employed.

