

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the National Institute of Labour Studies for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 reported to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2020 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 opinion

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 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 the 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 the 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 skepticism 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,
- 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 Non-compliance with Law, rules, regulations and management decisions

The following observations are made in this regard.

Reference to the laws, rules , regulations etc.	Non compliance	Management Comment	Recommendation
-----	-----	-----	-----
(A) Paragraph 11.1 of Public Finance Circular No. 01/2020 dated 28th August 2020	Although the survey of goods for the year under review should have been physically completed before January 31 of each financial year, the survey of goods for the year under review had not been completed at the date of 09 th April, 2021	The calling of staff was restricted due to the Covid-19 pandemic and it is expected to be completed by 10 th May, 2021 even amidst obstacles	Taking actions to complete the survey of goods.
(B) Subsections 3 (b), 3 (c), and 3 (d) of the National Institute of Labour Studies Act No. 12 of 2010	The main objectives of the organization are, establishing and maintaining of the publication of journals and books, issuance of survey reports and provide of library and information services about the Institute of Labour Studies, though no action had been taken to achieve those objectives.	A periodical called 'NILS News Letter' has been issued to educate the target groups. And it was established a section called "Research Publications and Projects" and implementing the programs and National Institute of Labour Studies was taken action to conduct a conference of the survey related to the considering year, this	Taking actions to complete the survey of goods.

program was not effective due to the Covid pandemic situation.

- | | | | |
|--|--|---|--|
| (C) Paragraph (i) of the part I of the Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka dated 09 th August 2020. | It had not been mentioned the Laws and Regulations to be executed under the Act No.12 of 2010 of National Labour Studies even the National Institute of Labour Studies was included in the scope of Labour. | The Ministry of Labour has proposed at the meetings held at the Presidential Secretariat to include the Labor Studies Institutions Act, in to the relevant institutional and legal framework under the relevant laws and regulations. | Action should be taken to include the National Institute of Labor Studies Act in to the purview of the Ministry of Labour. |
| (D) Section 16.2 of the National Audit Act No. 19 of 2018 | The Performance Report had not been submitted to the Auditor General along with the Financial Statements although the annual performance report should be submitted to the Auditor General along with the annual financial statements. | It has not instructed according to Public Finance Circular 02/2020 that a performance report should be submitted when submitting financial statements for audit. | The actions should be taken in accordance with the National Audit Act. |

1.6 Cash Management

Audit Observation	Management Comment	Recommendation
The balances in the current account of the bank, ranged from Rs. 5 million to Rs. 21 million at the end of each month of the year under review held due to the failure to identify the balance of the bank to be maintained for the successful operation of the institute and to invest the excess cash in a short-term savings scheme. Through that the interest income which the institute could have been earned for the future had been lost.	It could not be deposited in the fixed deposits for protecting the liquidity due to non-receipt of the income which expected as per the Covid pandemic although the approval had been taken by submitting a board paper to the governing body to keep the sufficient amount in the current account to cover the monthly expenses and balance is to be deposited in the fixed deposit or to make short term investment after discussing with the bank.	The actions should be taken invest in short term savings scheme by Identify excess bank balances.

2. Financial Review

2.1 Financial results

The operating result of the year under review was deficit of Rs.7,426,319 and the surplus of the corresponding previous year was Rs. 210,316. Accordingly a decline of the financial result of Rs.7,636,635 was observed. The main reason for this decline was inability of the institute to conduct the courses and program due to the Covid 19 pandemic situation and this was affected to decline the revenue of Rs.34.12 million earned in previous year up to the revenue of Rs. 15.93 million in the year under review.

2.2 Trend Analysis of main Income and expenditure codes

Main Revenue/Expenditure Item	2020	2019	Difference	Difference as Percentage
	(Rs.)	(Rs.)	(Rs.)	(%)
Revenue	15,932,955	34,124,989	(18,192,034)	(53)
Government Grant	6,100,000	10,768,853	(4,668,853)	(43)
Conducting Programs	3,173,959	10,867,467	(7,693,508)	(71)
Other Operating Expenditure	26,285,315	33,876,058	(7,530,853)	(22)

It was observed that the revenue and government grants were decreased in the year under review by 48 percent and capital expenditure was declined of 71 percent when comparing the previous year.

3. Operational review

3.1 Management inefficiencies

Audit Observation	Management Comment	Recommendation
(A) When the employee education division separating from the Department Of Labour and establish as National Institute of Labour Studies in the year of 2008, a van had been handed over to the Institute which was donated to the Employees Education Division of the Department of Labour in the year 2001 by the United Nations Development Program though this vehicle had not been taken over to the institute formally. Even The vehicle	After reporting to the Colombo Fraud Investigation Division, a request was made again to the Commissioner General of Motor Traffic to provide the original file and the transfer file, but it has not been submitted so far.	Necessary action should be taken to expedite these investigations.

had been taken out of service due to a technical fault, but the Department of Motor Traffic had confirmed that a private owner had a van with a registration number similar to the registration number of the vehicle and after making a complaint to the Bureau of Fraud Investigation in Colombo on 5th January 2020 by the institute, the Commissioner General of Motor Traffic was instructed by the Bureau through the court order to submit the original file and the transfer file of the vehicle to the institute, the investigation was halted due to not submitting of the files by then 31st December 2020.

- | | | |
|--|--|---|
| <p>(B) The approved carder of the institution is 45 and actual carder was 17 as at 31st December 2020 that is 38 present of the approved carder. Meanwhile, 06 out of 9 senior level posts remained vacant.</p> | <p>It is not possible to recruit all the relevant staff as the financial position is challenged due to the Covid pandemic. Necessary arrangements have been initiated to the Department of Management Services for further review of the approved carder of the institution.</p> | <p>The action should be taken to employ the staff which is essential to achieve the objectives of the organization.</p> |
| <p>(C) The Research, Publication and Project Division of the Institute were established in July 2020 and there is only one Acting Assistant Director for that Division and no other staff has been assigned up to 10th April 2021. Accordingly, the achievement of the desired objectives of establishing this sector has been very slow.</p> | <p>Efforts are being made to get maximum benefit of the limited human and financial resources available. The Board of Governors has approved the new recruitment and will recruit them in the future once the pandemic situation has returned to normal.</p> | <p>The actions should be taken to employing the staff which is essential to achieve the objectives of the organization.</p> |

3.2 Operational inefficiencies

Audit Observation	Management Comment	Recommendation
<p>The Examinations Division conducts examinations for the recruitment of staff, efficiency bar and evaluation and promotion of services based on the</p>	<p>Although the Board of Governors has approved approaches to introduce a methodology for selecting</p>	<p>Information should be provided to the audit on the following of accepted security</p>

needs of public sector corporations, statutory bodies and depending on the institutional needs of the private sector. However, it was observed that the preparation of question papers and evaluation of answer papers is done by a single person and not by a board and there is a risk of anomalies in the examination. Furthermore, the flow charts of the institute's internal procedures for conducting examinations were not observed during the audit and sufficient information was not provided to evaluate the adequacy of the controlling methods, provided to adopt accepted security practices and accepted security practices related to confidentiality protection.

resource contributors, streamlining payments in the examination division, it aims to streamline the activities of the Examinations Division and provide a quality service. Further actions need to be taken to prevent exam anomalies and to protect confidentiality. I emphasize that the protection of confidentiality of internal procedures for conducting examinations can not be submitted even for the audit.

procedures, controlling methods provided to protect confidentiality. The audit is bound to protect the confidentiality.

4. Accountability and Good Governance

4.1 Annual Performance Report Tabled in Parliament

Audit Observation	Management Comment	Recommendation
The Annual Report for the year 2019 had not been tabled in Parliament even the date of April 10 th 2021.	Cabinet approval has been obtained for this. The first part of this year, it was announced that 300 printed copies would have to be submitted to Parliament instead of producing CDs as per the new guidelines issued by the Office of the Leader of the House of Parliament because of that it had to be commenced the new procurement activities for printing of annual reports. Following the completion of those activities, arrangements have been made to table the Annual Report in Parliament expeditiously. The delay was due to a sudden revision of the methodology.	Urgent action should be taken to table the Annual Reports in the Parliament.