

Head -221- Department of Labour

1. Financial Statements

1.1 Qualified Opinion

Head 221-The audit of the financial statements of the Department of Labour for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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. The summary report containing my comments and observations on the financial statements of the Department was issued to the Accounting Officer on 09 June 2022 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Department was issued to the Accounting Officer on 15 June 2023 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with 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 2022, 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

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

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

As per 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 the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, 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 systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 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.
- Evaluate the overall presentation, structure and content of the financial statements including 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

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Property, Plant and Equipment

The following deficiencies were observed in accounting for Property, Plant and Equipment.

Audit Observation	Comment of the Accounting Officer	Recommendation
(i) A difference of Rs.18,643,128 was observed when comparing the opening balances of treasury printed notes of 05 items included in non-financial assets with the treasury printed notes as on 31 December 2021.	The closing balance of Treasury printed notes as at 30 November 2022 was able to identify differences with the opening balance of Treasury printed of December 2022. When inquiring about the errors from the State Accounts Department, it was possible to identify that there have been changes in the treasury printed notes. After checking it, it will be corrected by Treasury printed notes in the future.	The balances included in the financial statements should be properly identified and accounted for.

Incurring of Liabilities and Commitments

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
According to the Treasury Printed Statement (SA-92) on 31 December 2022, the liabilities	The Department of Labour has a total of 101 divisions. Many practical difficulties have arisen in	Action should be taken to identify all liabilities properly.

balance was Rs.18,811,256 and the liabilities balance shown in the statement of accounts on that date was Rs.23,180,626.

identifying and reporting liabilities from all these sectors. However, actions are taking to inform all parties to identify and report the correct liabilities.

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Regarding the transfer of provisions of Rs.36,952,781 between capital expenditure codes, the relevant approval was not obtained as per Section 66 (4)(a) of the Financial Regulations.	There has been no transfer of provisions to other expenditure codes and During the preparation of the final account prepared in relation to the E.P fund, the furniture and office equipment, machines and machinery purchased under the above expenditure codes only have been identified under the relevant fixed asset categories only for the purpose of depreciation.	Should act in accordance with financial regulations.
(b) Although the remaining provisions should be dealt with according to 03 (xvii) of the State Budget Circular No. 03/2022 dated on 26 April 2022, the provisions allocated to 03 capital expenditure codes for the year 2022 had been spent on other capital expenditure codes. In this way, provisions of Rs.5,579,872 had been spent after the issuing of the said circular for the expenditure codes for which the provisions were transferred.	No action has been taken in violation of State Budget Circular 03/2022.	Provisions should be utilized as per budget circulars.

2.2 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

	Observation	Comments of the Accounting Officer	Recommendation	
Reference to Laws, Rules and Regulations	Value Rs.	Non-compliance		
(a) Factories Ordinance Act No. 45 of 1942				
(i) Section 34 (6).		A steam boiler should be inspected every 14 months by subordinate personnel, and after major repairs an authorized officer should be inspected and tested. The Department's Office of Factory Inspecting Engineers had not developed a suitable program to be satisfied on this requirement was met in relation to each boiler.	Copies of the reports examined and submitted by the authorized officers are submitted by the factory owners and authorized officers to the offices of the District Inspector of Factories and accordingly the statistics of the department are already maintained.	Boiler inspections should be done properly as per the Act
(ii) Section 92		Although the details related to accidents and industrial diseases occurring in the factory should be mentioned in the general register and copies thereof should be sent to the district factory inspector engineer office, there was no system of obtaining such	As per the proposed digitization plan of the department, it is expected to take steps to do these activities properly.	Action should be taken to maintain formal records of accidents and industrial diseases in factories.

information data in the factory inspector engineer office.

- (b) Sections 1.1, 1.1(3), 5.2 of the Labour Commissioner General's Circular No. 01/99 dated on 11 February 1999
- while collecting arrears of contributions and surcharges of the Employees' Provident Fund, Collecting accurate information at the time of initial inspection, obtaining employee declarations, maintaining formal inspection reports, calculating surcharges accurately, maintaining the register bearing E.P.F/L.A/05 were not done accordingly as per circular.
- I would like to kindly mention that since no facts have been presented that 57 District Labour Offices and Sub-Labour Offices of the Department of Labour have not acted as per the circular, I cannot comment on whether they agree or not.
- Action should be taken to maintain proper and accurate information about arrears and surcharges.
- (c) Gazette No. 2142/90 on 27 September 2019
- i. As per the provisions of the Gazette notification, arrangements should be made for registration of steam boilers and other pressure vessels, but no provision was made for inspection of other pressure vessels during factory inspection.
- These Regulations do not impose provisions for the registration of other pressure vessels.
- It should be done as per the orders of the gazette notification.
- ii. Although it should be ensured that there are mechanisms to protect workers from excessive noise and that there is adequate lighting in the factory, the observation lists used during factory
- The measurement of environmental data such as light and sound are carried out by the inspection officers of the Occupational Safety Division of the Department and according to the number of equipment and human resources available for the
- It should be done as per the orders of the gazette notification.

inspections have not measurement of the been updated to Department, relevant comply with the recommendations are directives of the new obtained from the gazette as required Occupational Safety to record those Division when necessary. inspections.

2.3 Irregular Transactions

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The procurement of Rs. 11,177,000 was handed over to the Department of Buildings without following procurement methods as per Chapter 3 of the Procurement Guidelines Code of the Democratic Socialist Republic of Sri Lanka with the aim of promptly completing the repair work of the building of the Ratnapura District Labour Office belonging to the Labour Department. The building department had sub-contracted this contract to a private contractor for a value of Rs.9,590,303. The management fee in the estimated value was Rs.449,960. But the repair work of the building was not properly supervised and the defects pointed out from time to time were not rectified by the contractor.	Although the entire estimated amount related to the project is released to the Building Department, the Building Department will return the remaining funds to the Labour Department after the completion of the construction work. If there are unfinished parts in the repair of the building, the building department has been informed to get those parts done by the relevant contractor or if not, to use the retention money related to this repair to carry out the work. If the retention money is insufficient, the building department has also been informed to pay attention to it while paying the final bill of the concerned contractor.	Procurement guidelines should be followed.

2.4 Deposit Balances

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The total balance of 02 general deposit accounts maintained by the department as on 31 December 2022 was Rs. 767,737,985 and the balance of Rs. 175,653,978 has not been dealt with in accordance with Financial Regulations 571 (2) and (3) in respect of deposits overdue for more than 02 years.	From the balance as at 31 December 2022, by 30 April 2023 the balance of those accounts are Rs.131,794,490 and Rs.547,358,262 respectively.	Action should be taken to follow the financial regulations.
(b) In the year under review, the sum of Rs.282,726,669 related to the Employee provident Fund of the Labour Department and the District Labour Offices was retained in the general deposit account without crediting the respective individual accounts.	By now (30 April 2023), the total amount of Rs. 199,233,655.63 in relation to the Employee Provident Fund section of the Department of Labour and District Labour Offices in the reviewed year.	Contributions should be credited to individual accounts.

3. Operating Review

3.1 Non- performance of Functions

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) In order to be a factory owner or resident, registration is required according to the provisions of the Special Gazette No. 2142/90 dated on 27 September 2019, but by the end of 2022, the number of files maintained in the District Factory Engineering Office was 32,948, but the number registered according to the new rules was 3,153. Considering the minimum registration fee of Rs.1,000, the department had lost at	It has become very difficult to visit the factories and do the registration process as the number of engineers are not enough. Also, I would like to inform you that problems such as the covid pandemic, economic problems and fuel crisis faced in the past years also had an impact on this. However, the department has taken steps to increase these activities.	Registration of factories should be done in accordance with the provisions of the Gazette.

least Rs.29,795,000 in registration fee for unregistered factories.

- (b) Due to non-compliance with the provisions of the Factories Ordinance Act, 52 files were received for the litigation during the period 2010-2018, but only 11 files were litigated among those. Although it has been 05 months to 02 years over since the Industrial Safety Division approved the litigation for 09 incidents in Kurunegala district, the litigation has not been taken any action to file cases as at the date of this report.
- Due to the covid epidemic, economic crisis and fuel shortage in the past years, the provisions were restricted ,Due to non-continuity of office and court work, there has been a delay in the proceedings the litigations and With the normalization of the office work, it is planned to speed up the litigations in the minimum provisions.
- It should be done according to the provisions of the Act.
- (c) Supervision of private provident funds
- (i) According to Section 27 of the Employees' Provident Fund Act No. 15 of 1958, the necessary legal provisions regarding the administration of approved provident funds and approved contributory pension schemes had been given and the Department of Labour had established a Private Provident Fund Division for the formal administration and supervision of this fund.Out of 117 Private Employees' Provident Funds (PPF) registered with the department, the balances of only 87 institutions were identified. Information was not maintained in institutions that did not submit fund balances, and there was no proper monitoring of these funds.
- In terms of Section 27 of the Employees' Provident Fund Act No. 15 of 1958, among the 117 active institutions that have approved provident funds, Investigations are being carried out on the institutions that have not submitted their balances, the existing shortage of officers and the government's expenditure restriction policy, and By the end of the year 2023, I expect to make significant progress in these matters. Furthermore, I would also like to mention that the balances of those funds are constantly changing.
- Supervision of private provident funds should be expedited.

- (ii) From 2017 to 2021, 291 complaints were submitted regarding this fund, among these 68 complaints were not resolved.
- In the years 2017, 2018 and 2019, only one management service officer was attached to the Private Provident Fund Division, and accordingly due to the multiplicity of duties, there were deficiencies in updating the petition register. Even so, I would like to further mention that the complaint investigations are being carried out under different investigation steps.
- Complaints should be properly investigated.
- (iii) According to Section 27(2)(a) of the Act, although the contributions of a certain month should be paid by the last day of the following month, due to not formally crediting the contributions for the private employee provident fund maintained by one company, the surcharge of Rs.108,218,673 related to the period of 2019-2021 had defaulted.
- I would like to kindly mention that group investigations will be conducted regarding that company and other organizations that do not pay the dues on the due date and accordingly the necessary actions will be taken to calculate the arrears of dues and surcharges and to take necessary steps to collect the said money.
- Proper action should be taken to recover the money as per the provisions of the Act.
- (d) Trade union division
Trade Unions Ordinance act No. 14 of 1935, Ordinance No. 03 of 1946, Ordinance act No. 15 of 1948, Ordinance act No. 18 of 1958, Ordinance act No. 24 of 1970 for registration, control and operation of trade unions. And it was observed during reference that these ordinances have not been revised to suit the present. Although there had been discussions since 2019 to revise some of the areas identified in this regard, no progress was observed in this regard.
- That you have paid attention to the matters you have observed and that the amendments related to the Trade Union Ordinance Act have been continuously discussed since the year 2019 and reports have been duly submitted to the relevant authorities regarding the related amendments. I would like to kindly inform you that by now, further work is being done regarding the amendment of the Act, which has been brought to the attention of the Honorable Minister.
- Actions should be taken to carry out purposeful tasks as per ordinance act.
- According to the Gazette of the Democratic Socialist Republic of Sri

Lanka dated on 22 July 2022 No. 2289/43, registration of trade unions as functions and tasks under the Ministry of Labour and Foreign Employment, introduction of positive actions to use the activities of trade unions in all public and private sectors for the development of the country should be implemented. No action was observed.

3.2 Delays in the Execution of Projects

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Rs.460,326,053 has been paid to the Building Department by 31st December 2021 for the 4th floor canteen and 8th, 9th, 10th, 11th, 12th, 13th and 14th floors of the Mission Building and for the internal construction and partitioning works was not finished till the date of this report.	Interior design works of 8th, 9th, 10th, 11th and 12th floors are nearly competed. The interior structural work of the 13th and 14th floors has been completed and handed over to the Labour Department and is currently being inspected for defects. The 16th floor right side interior construction work is planned to be done in 2023.	Internal construction work should be done and steps should be taken to use the space.

3.3 Losses and Damage

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to the loss and damage register, it was recorded that there were 02 incidents of vehicle accidents in the year 2022. Initial reports in terms of Financial Regulation 104(3) regarding accidents had not been submitted to the Auditor General for audit.	In the year 2022, 02 vehicles were involved in an accident and the repair work for those damages was completed and the expenses were covered by the full insurance. Related officials have been appointed to carry out investigations under F.R104 regarding the damage and the	Damages and losses should be acted in accordance with financial regulations.

inspection reports are being prepared by those officials. Those reports will be prepared and submitted promptly.

3.4 Management Weaknesses

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) The old building which is located in the Ratnapura District Labour Office belonging to the Labour Department had been vacated from the place since 2015 due to the collapse of mounds and had been established in a rented building at the rate of Rs.175,000 per month. Since the contract period of the rental building ends on 30 September 2021, the Department Procurement Committee which met on 07 July 2021 had decided to carry out the repair work of this building for an amount of Rs.11,177,000 from the Department of Buildings. Prior to the commencement of the repairs, the Landslide Testing and Risk Management Division of the Building Research Organization had not implemented the short-term recommendations of the initial survey report issued on 31 August 2019, and after the repairs and again on the approximate date of 17 May 2021, a mound collapse had informed. It is not possible to make these repairs on time and use the office again in the year 2023, and from October 2020 to December 2022, an amount of Rs. 7,560,000 was paid to an external party as rent at the rate of Rs. 280,000 per month.</p>	<p>The letter dated on 20 January 2023 referred by the National Building Research Organization has stated that the institution is proposed to implement a landslide risk reduction project in the last quarter of 2023 or in the year 2024, and the building can be used subject to the recommendations mentioned in the letter. Accordingly, the recommendations have been implemented and the Employee Provident Fund Division is carrying out networking activities for the data systems. The Ratnapura District Labour Office is to be established in that building as soon as the networking work is completed.</p>	<p>Assets should be managed efficiently and effectively.</p>

- (b) The women's hostel established in the Biyagama Investment Promotion Zone was closed for repair work since on 15 June 2018, and the repair work was not done by the year 2023. By renovating the hostel, the opportunity to provide accommodation to the persons working in the investment zone has been lost, and for the security of this hostel, an amount of Rs. 4,245,678 was spent to a private company from the year 2018 to December 2022.
- As the provisions set aside for the maintenance of the hostels are not sufficient, without carrying out the renovation work, the provision available for the renovation of Koggala and Katunayake hostels is Rs. 4,000,000 was decided to be used.
- Assets should be managed efficiently and effectively.

4. Human Resource Management

The following observations are made.

Audit Observation

Comments of the Accounting Officer

- (a) Details of approved, actual and vacant staff of the Department as on 31st December of the year under review are given below.

Employee Category	Approved number of employees	Actual Number of employees	Number of vacancies
(i) Senior level	211	133	78
(ii) Tertiary level	668	478	190
(iii) Secondary level	1,753	1,718	35
(iv) Primary level	489	401	88
Total	3,121	2,730	391

According to the decision of the Cabinet of Ministers dated on 07 February 2023 CA/23/0160/605/012, approval has been received regarding the completion of vacancies belonging to this department. Accordingly, the Departmental Assistant Labour Commissioner and Labour Officer (Limited) competitive examination will be conducted by the examination department and the results will be released. Interviews have been held so far to fill the vacancies of Driver and Office Assistant Service from Multitasking Development Assistants. In order to complete the vacancies belonging to engineering service and technical service, 02 officers have been nominated for 2 posts of engineer (civil) and have been directed to get the approval of the secretary of the Ministry of Public Administration.

Staff vacancies for essential posts should be filled as approved.

As at 31 December 2022, it is observed that the shortage of employees in the department has affected the achievement of the desired performance in the areas of decision-making,

In relation to filling up the vacancies

responsibility, supervision, field duties as well as the decrease in effectiveness.

of legal officer posts, the call for applications notice is being prepared and submitted for the approval of the Public Service Commission.

The Secretary of the Ministry of Public Administration, Director General of Integrated Services has been informed about other statewide and integrated service posts vacancies.