

National Institute of Labour - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Institute 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, 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 accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2022, 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 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 Audit Scope (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 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 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Policies

Audit Issue	Management Comment	Recommendation
Although Accounting Policy No. 3.5 states that revenue from the sale of goods/services is recognized when the goods are delivered and ownership is transferred, in the sample examination conducted in relation to Diploma in Business Management Sinhala and Tamil, the profit for the year under review was recognized on the basis of receipt of cash instead of on the basis of completion of modules. Rs.204,000 was shown more.	From the year 2023, income will be accounted for on accrual basis while recognizing income.	Revenues should be properly recognized and accounted for.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(A) During the year, the institution had received an amount of Rs.56,000 from a student for the Business Management Sinhala Diploma course. Only one of the 12 modules belonging to this course was completed in the current year, but the annual profit was increased by Rs.52,000 as the entire course fee was recognized as income.	From the year 2023, income will be accounted for on accrual basis while recognizing income.	Income should be accounted for on accrual basis.
(B) The audit fee for the financial year 2020 was Rs.162,200 and was recognized as an expense in the year under review without provision in that year, so the profit for the year under review was shown less than that value.	There is no provision of audit fees for the year 2020 only. From the year 2021, arrangements have been made to properly provide provisions for audit fees.	Audit fees should be properly accounted for.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(A) National Institute of Labour Studies Act No. 12 of 2010	(i) Although one of the main objectives of the institution is to establish and maintain libraries and information services in accordance with sub-section 3 (d), such library and information services have not been implemented by the institution till 31 March 2023.	The National Institute of Labour Studies will not receive any allocation from the Treasury from the year 2023. Therefore, the work of establishing a library with the income generated by the National Institute of Labour Studies will be done in the near future. The setup of the web page, which includes electronic publications, will be completed in May 2023.	Actions should be taken to achieve the objectives mentioned in the Act.
	(ii) According to sub-section 3 (e) national and foreign organizations and associations and societies with similar objectives should work in close cooperation, but such programs were not formally implemented.	As per the instructions of the meeting held with the local representative of the International Labour Organization on 29 March 2023 under the chairmanship of the Secretary of the Ministry, an MoU will be signed in the near future with the V V Giri National Labour Institute of India. After that, it is expected to get support from the International Labour Organization to establish cooperation with institutions related to labour studies in Korea and Japan.	Actions should be taken to achieve the objectives mentioned in the Act.
	(iii)4 (g) to exchange and train persons with other institutions in Sri Lanka or abroad, having objectives wholly or partly similar to the	By developing cooperation through relevant MoUs, many tasks can be accomplished such as obtaining training opportunities, observation visits, support for research	Actions should be taken to achieve the objectives mentioned in the Act.

objectives of the activities, exchange of Institute, in research and publications, etc. consultancy services and generally for furthering their common objectives. Although the agreement should have been entered into, it was not done so.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.18,874,140 and the corresponding surplus in the preceding year amounted to Rs.13,109,428 Therefore an improvement amounting to Rs. 5,764,712 of the financial result was observed. The reasons for the improvement are mainly due to increase in operating income and fixed deposit interest income.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(A) As per the recruitment scheme there is a permanent vacancy for the post of Director General. It is the highest executive member post with overall responsibility and accountability for the administration of the institution and the institution has not yet recruited a permanent officer for this post. It was observed that due to non-recruitment of officers for the posts of Program Officer and Assistant Director of Examination Division, duties are not being performed properly.	An officer of the Sri Lanka Administrative Service has been appointed full-time on a secondment basis to the post of Director General of the National Institute of Labour Studies. This is one of the ways of appointing Heads of Institutions for semi government institutions.	Appointments should be made so that administrative affairs can be conducted in a formal manner.
(B) In order to achieve the objective of establishing the institute, although a research publication and project division was established in July 2020, it was problematic to achieve the desired objectives as no officer has been formally employed till the date of audit.	Although the institution has taken the necessary basic steps for the recruitment of these posts, it has not been possible to carry out the recruitment as per the National Budget Circular No. 03/2022, the recruitment has been temporarily suspended.	Officers should be employed to fulfill the purpose of establishing the institution.