

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Human Resource Development Council of Sri Lanka for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance for the year then ended, statement of changes in net assets and the 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 the 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 Council as at 31 December 2023, 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 Council'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 Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Council 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 Council.

1.4 Responsibility of Auditor on audit of 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 Council'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 Council'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. However, future events or conditions may cause the Council 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 Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law, or other general or special directions issued by the Governing Body of the Council;
- Whether the Council has performed according to its powers, functions and duties; and
- Whether the resources 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

	Non-Compliance with the reference to particular Standard	Comment of the Management	Recommendation
(a)	According to the paragraph 09 of Sri Lanka Public Sector Accounting Standard 02, a fixed deposit of Rs.10,000,000 with a maturity of one year was not shown as a cash outflow under investment activities but shown under cash and cash equivalents. As such, investment activities and cash in hand has been overstated by that amount.	Instructions have been given to rectify in the financial statements of the year 2024.	In accordance with Sri Lanka Public Sector Accounting Standards, action should be taken to show fixed deposit investments in the cash flow statement correctly.
(b)	As per the section 25 of Sri Lanka Public Sector Accounting Standards 07, the cab had been accounted for as Rs.6,000,000 received through a non-exchange transaction without any basis. No action had been taken to assess and account of the fair value of the cab acquired in the year under review. Further, the depreciation of Rs.588,493 related to the year under review had not been accounted for that cab, as such, the deficit of the year was understated by that amount.	That the insurance value was included in the financial statements as no value has been specified in the issue order when issued by the Ministry of Public Administration, Home Affairs, Provinces and Local Government.	The fair value of the cab should be assessed and the related depreciation should be properly accounted for.
(c)	The recognized value of the cab amounted to Rs.6,000,000 acquired in the year under review through a non-exchange transaction had not been adjusted in the financial performance statement, as per the Sri Lanka Public Sector Accounting Standards 11.	Action will be taken to include the correct assessment value in the future.	In accordance with Sri Lanka Public Sector Accounting Standard 11, the value should be accurately identified and included in the financial statement.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Due to capitalization of recurrent nature expenses of Rs.706,655 spent on two vehicles during the year under review, the balance of the fixed assets account and the deficit for the year were overstated and understated respectively by that amount.	Instructions have been given to rectify in the financial statements of the year 2024.	Expenses should be properly identified and accounted for.
(b)	The insurance premium of Rs.165,447 paid in the previous year for the year under review had been accounted as expenses of the previous year. Also, the stationery expense of Rs.81,555 paid in the year under review in relation to the previous year had been accounted as expenses of the year. As such, the deficit of the year had been understated by Rs.83,892.	Instructions have been given to rectify in the financial statements of the year 2024.	Expenses should be properly identified and accounted for.

1.5.3 Unreconciled Control Accounts or Records

	Item	Value as per Financial Statements (Rs.)	Value as per Corresponding Record (Rs.)	Difference (Rs.)	Comment of the Management	Recommendation
(a)	Balance of furniture and Fixtures Account	5,272,129	5,195,459	76,670	Instructions have been given to rectify in the financial statements of the year 2024.	Fixed asset records should be properly prepared and financial statements should be prepared accordingly.
(b)	Distress loan balance	3,520,934	3,692,947	172,013	Instructions have been given to correct the distress loan schedules.	Financial statements should be prepared based on accurate schedules.

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

	Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a)	(a) and (b) of section 11 of the Finance Act No. 38 of 1971	Funds of the Council should be invested on the approval of the Minister of Finance but the National Council had not been obtained the approval of the Treasury for the investment of Rs.10,000,000 in a fixed deposit in the year under review.	This fixed deposit will be expired on 24.06.2024 and will be used to meet the recurrent and capital expenditures of the institute without reinvestment. Further, if there is any balance, the approval of the Governing Council will be taken to credit to the consolidated fund at the end of the year.	According to the Finance Act, funds of the institute should be invested with the approval of the Minister of Finance.
(b)	Letter No. F/FR/05/NHRDC/General/03/20 dated 05 February 2024 of the Chief Financial Officer of the Ministry of Public Administration and Home Affairs, Provincial Councils and Local Government	Although it was informed to immediately credit to the Consolidated Fund the amount of Rs.3,589,644 saved as at 31 December 2023 from the funds allocated for the year 2023 from the National Budget Estimates, that money had been used to cover the expenses of the year 2024.	Since the Ministry had not recommended the release of imprest from the Treasury Operations Department from February till now, the salary payments and other expenses of the institute were met with the funds remained as on 31.12.2023.	Action should be taken to promptly credit the money remained on 31 December 2023 to the Consolidated Fund.
(c)	Asset Management Circular No. 05/2020 dated 02 October 2020 of the Ministry of Finance	Although vehicles which are not in running condition should be disposed or repaired and put into use immediately, a van of the National Council had not been put in to running condition from 16th January 2023 to 10th May 2024, the date of audit.	Action will be taken to make provisions for the repair work of the van and it will be repaired in the future.	Vehicles that are not in running condition should be disposed or repaired and put into use promptly.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.1,370,102 and the corresponding deficit in the preceding year amounted to Rs.550,915. Thus a deterioration amounting to Rs.819,187 of the financial result was observed. Increase in electricity expenses and depreciation had mainly attributed for this deterioration.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) 25 years had been passed since the establishment of the National Council. But according to Section 14(1) of the Human Resource Development Act No. 18 of 1997 the final result of the task of formulating a policy for the development of national human resources, one of its primary objective, was unable to reach even by 31 December 2023.	That further work is being done based on the government's approved policy on human resource development and employment.	The objectives of establishing the institution should be achieved by taking effective measures to fulfill the main objective.
(b) According to Sections 16(2)c and 16(2)e of the Act, a data bank containing information on various areas related to human resource development that helps to fulfill the primary objective of the institution should be maintained. But a data bank had not been maintained even by 31 December 2023.	Since there is a need for a strong mechanism for the updating of that information, the process of creating some new cadre positions has been started for this, which is an essential part of the council.	The attention should be basically focused on fulfilling the tasks specified in the Act.
(c) The meetings of the National Council related to the formulation, promotion and implementation of policies related to the development of human resources had been held 5 times in the previous year and 02 times in the year under review. But no working procedure had been approved for conducting of those meetings formally as per Section 10(5) of the Act.	That the actions have already been taken to start for the formalization of the procedure to be followed regarding the holding of meetings and the conduct of those meetings.	A working procedure should be quickly prepared for the formal conduct of meeting activities.
(d) It was unable to recruit a new officer for the vacant position of Director of the National Council from 27 April 2021,	That the selected officer has been informed that she	Action should be taken to formal recruitments.

even by the date of the report.

cannot take over the work due to a problem in her resignation from her current place of work.

(e) In order to fulfill the objectives of the National Assembly, conducting researches in various fields are essential task, so an Assistant Director (Research) officer should be available in the Council to give priority to it, but from 31 October 2020 to the date of audit of 15 May 2024, it was not possible to recruit a permanent officer for that position and a female officer was appointed on an acting basis from 03 August 2021.

That approval has been obtained for the revision of the organizational structure and that the necessary revisions are currently being made in consultation with the Management Services Department.

Action should be taken to recruit essential posts.

3.2 Utilization of resources of other organizations

Audit Observation	Comments of the Management	Recommendation
A motor vehicle given to the National Council by the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government in the year 2023 had not been acquired over to the Council even by 10 May 2024.	That arrangements are being made to take over the PB-0286 cab in the future, which has been provided to the council on the temporary basis.	Action should be taken to take over the not acquired cab used for the purposes of the Council.