

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 2022 comprising the statement of financial position as at 31 December 2022 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 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 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 of the Council 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) As per the section 21(e) of Sri Lanka Public Sector Accounting Standard 01, When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements should be submitted. But 08 items worth Rs.29,268,683 for which there was no approved estimate were shown in the financial statements as budgeted information.	Action will be taken to present only the figures in the budget document as budgeted figures in the financial statements	According to Sri Lanka Public Sector Accounting Standards only estimated items should be disclosed in the financial statements.
(b) The statement of financial performance was not prepared according to the alternative accounting method introduced by Sri Lanka Public Sector Accounting Standard 11. Also, although all the capital grants received during the year should be shown under income arising from non-exchange transactions, government capital grants of Rs.1,256,094, out of Rs.3,038,000, received during the year under review had not been recognized as revenue. As such, the surplus and government capital grants were in the year were understated and overstated by Rs.1,256,094 respectively.	Agree to accurately account for capital grants in the year 2023.	Government grants should be accounted for in accordance with Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the depreciation expense to be recognized for vehicles in the year under review was Rs.2,052,637, due to the depreciation expense was shown as Rs.1,843,867 in the financial statements, the deficit of the year and the balance of the vehicle account were understated and overstated by Rs.208,770 respectively.	Agree to correct the motor vehicle account in the year 2023.	Depreciation expenses should be properly calculated and accounted for.
(b) Although the depreciation expense to be recognized for computer accessories from the beginning of the year under review to the date of revaluation was Rs.98,019, it was identified as Rs.167,581 in the financial statements, as such, the deficit of the year and the revaluation surplus were overstated by Rs.69,562.	Agree to correct the computer accessories account in the year 2023.	Depreciation expenses should be properly calculated and accounted for.
(c) A sum of Rs.541,933, not included in the statement of financial position had been adjusted to the surplus of the year as over provision for expenditure in calculating the net cash flow generated by operating activities in the statement of cash flows. As such, cash flow generated from operating activities was overstated by that amount.	Agree to correct the cash flow statement.	Action should be taken to present only actual values in financial statements.
(d) The opening balance of the stock account for the year under review amounted to Rs.1,080,696 was erroneously accounted as Rs.180,696 to the stationery expense account. As such, the deficit of the year and closing stock value were understated and overstated by Rs.900,000 respectively.	Instructions were given to correct the stationery account.	Before preparing the financial statements, the correctness of the balances shown in the ledger accounts should be verified.
(e) Although the balance of the Accumulated Surplus Account and the Deferred Government Capital Grant Account as on 31 December 2021 were Rs.267,254 and Rs.9,297,497 respectively, but were accounted in debit as Rs.508,294 in the opening balance of	Instructions were given to correct the Accumulated Surplus Account and Deferred Government Capital Account in the year 2023.	Action should be taken to correctly record the year end balances as the next year opening balances.

the year 2022 in Accumulated Surplus Account and Rs.10,073,045 in Deferred Government Capital Grant Account. As such, the audit could not confirm the accuracy of that value.

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| (f) | The depreciation expense of the revalued vehicles amounting to Rs.831,123 was recognized as depreciation expense in the financial statements, but due to erroneously recording the same value again in the income and deferred income account in the year, the deficit of the year and deferred income grants were understated by that amount. | Instructions were given to correct the depreciation of motor vehicles. | Action should be taken to correctly record the depreciation. |
| (g) | During the writing off of computer equipment costed for Rs.569,973 in the year under review, which was identified and removed in the board of surveys in previous years, the accumulated depreciation of those assets had been transferred to the revaluation account instead of being transferred to the asset disposal account. As such, the deficit in the year under review and the balance in the revaluation reserve account were overstated by that amount. | Instructions were given to find the evidence and submit to the audit. | Accumulated depreciation of assets should be transferred to asset disposal account while writing off assets from books. |

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
Balance of the Computer equipment account	5,698,339	5,380,568	317,771	Agree to correct the computer revaluation account in the year 2023.	Action should be taken to ensure accuracy in preparing financial statements.

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

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
Paragraph 3(x) of National Budget Circular No. 03/2022 dated 26 April 2022 as amended by paragraph 02 (viii) of National Budget Circular No. 01/2023 dated 27 January 2023	Although loan facilities provided to staff officers under the Public Advance Accounts were suspended, contrary to that, distress loan amounted to Rs.403,000 had been paid to 03 staff officers and festival advances amounted to Rs.70,000 had been paid to 07 staff officers of the council.	Action will be taken to follow the circular in the future.	Attention should be paid to comply with the existing rules and regulations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.550,915 and the corresponding surplus in the preceding year amounted to Rs.1,193,977. Thus a deterioration amounting to Rs.1,744,892 of the financial result was observed. Compared to the previous year, although government grants had increased by Rs.1,787,755, increase in total expenditure by Rs.4,063,630 had mainly attributed for this deterioration.

3. Operational Review

3.1 Identified Loses

Audit Observation	Comments of the Management	Recommendation
The surplus amount of Rs.14,329,816 generated by conducting foreign training programs by the council since 2016 was not effectively invested and remained in the current account of a government bank in the name of the council as on 01 January 2022. As such, at least interest income of Rs.788,140 had been lost in the year 2022.	A fixed deposit account has been opened as per the decision taken in the board meeting.	The excess money in the bank current account should be invested effectively.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) According to Section 14(1) of the Human Resource Development Act No. 18 of 1997, the council should prepare a national human resource development policy and review it periodically and should advise the Minister	The amended Human Resource Development Policy had been approved by the Cabinet of Ministers in 2017. It was	The objectives of establishment of the council should be achieved by taking effective

and the government on human resource development. Even though 25 years had been passed since the establishment of the council, the council had failed to achieve these basic objectives of the establishment of the National Council even by 31 December 2022.

(b) To perform the following functions in terms of Sections 16 (2) c and 16 (2) e of the said Act.

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| <p>(i) To establish and maintain liaison with international agencies and other organizations outside Sri Lanka discharging functions similar to those discharged by the Council. These duties had not been completed even by 31 December 2022, and the related activities required for this had not been included or planned in the action plan prepared for the year 2022</p> | <p>The Regional Human Resource Development Plan was forwarded to the BIMSTEC Permanent Secretariat in Dhaka on 02.08.2023, and the plan has been forwarded to the member countries for comments and suggestions presently.</p> | <p>Attention should be focused on executing of functions specified in the Act.</p> |
| <p>(ii) To establish and maintain an information data bank on human resources development and related fields in Sri Lanka which helps to fulfil the basic objective of the Council. Although it was informed that necessary activities are being done to get the services of a consultant to create the data bank in the year 2021, the data bank had not been maintained even by 31 December 2022.</p> | <p>A report was compiled and handed over to the Prime Minister's Office based on the data collected. Although it was proposed to compile a digital database as the second phase of this, the implementation of the idea was hampered due to the existing difficulties in obtaining funds.</p> | <p>Attention mainly should be focused on maintaining a data bank to fulfill the primary objective of the Council.</p> |

3.3 Utilization of resources of other organizations

Audit Observation	Comments of the Management	Recommendation
<p>The ownership of the cab with the assessed value of Rs.9,100,000 owned by the Ministry of Economic Policy and Plan Implementation, which has been used by the council since February 2016, had not been taken over to the council even by 31 December 2022.</p>	<p>Although several requests had been made to transfer the ownership of the vehicle to the council, no clear answer had been given. Action will be taken to discuss this matter with the officials of the relevant ministry in the future.</p>	<p>Action should be taken to transfer the ownership of the vehicle.</p>

3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
According to paragraph 2.1 of the Public Finance Circular No. PFD/08/2019 dated 17 December 2019, all public enterprises should register for the National e-GP system before 31 January 2020, but the National Council had not complied with it even up to the date of this report.	As per the relevant circulars, instructions have been given for immediate registration in the e-GP system.	Public Finance circular should be followed.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comments of the Management	Recommendation
According to Public Enterprises Circular No. 01/2021 dated 16 November 2021, although the financial statements should be submitted for audit within 60 days after the end of the accounting year, the financial statements related to the year 2022 of the council were submitted to the audit after a delay of 132 days i.e. on 12 June 2023.	The financial statements were referred to the Audit and Management Committee for approval and a meeting was held on 30.03.2023. Then it was submitted to the governing Council for approval. After the approval of the relevant Governing Council it was submitted for audit.	Arrangements should be made to submit the financial statements for audit on the due date as per the Public Enterprises Circular.