

National Institute of Occupational Safety and Health - 2014

The audit of financial statements of the National Institute of Occupational Safety and Health for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 17(3) of the National Institute of Occupational Safety and Health Act, No. 38 of 2009. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my of opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the National Institute of Occupational Safety and Health as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards 01

The following observations are made.

- (a) Even though assets and liabilities, and revenue and expenses could not be set off except for a particular instance, out of the revenue amounting to Rs.36,220,884 received during the year under review, expenses of Rs.14,694,860 had been set off, and the net balance of Rs.20,383,184 had been shown as revenue in the financial statements.
- (b) In case of materiality, each source of income should be separately disclosed in the financial statements. Nevertheless, the income amounting to Rs.1,229,401 received from the Higher Certificate Course had been shown in the income from Technical Courses while the income of Rs.1,424,000 received for medical examinations and the income of Rs.1,474,533 received for the Standard Programmes of National Occupational Skill Courses had been shown in the income from other agreed functions.
- (c) A statement of changes in equity had not been prepared and presented by the Institute.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.16,151,975 received from the General Treasury for capital expenditure from the year 2010 had been brought to account as an income instead of being accounted for as capital grants.
- (b) Capital expenditure amounting to Rs.3,115,432 incurred by the Institute and recurrent expenditure of Rs.2,387,532 which should be reimbursed from the Ministry of Labour and

Labour Relations during the year under review had not been included in the accounts as a receivable.

- (c) The fixed assets valued at Rs. 5,813,827 purchased during the year under review had been shown as Rs.3,728,741 in the cash flow statement while a petty cash of Rs.10,000 had been omitted. As such, the accuracy of the cash flow statement could not be satisfied in audit.

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

The following observations are made.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) National Institute of Occupational Safety and Health Act, No. 38 of 2009 Section 18	The Institute shall prepare a report of the work of the Institute and forward such report before the lapse of the year succeeding the year to which such report relates, to the Minister who shall table such report in Parliament. Nevertheless, that report for the year 2013 had not been prepared up to the date of audit.
(b) Finance Act, No. 38 of 1971 Section 11	Action had not been taken to invest the excess money of the Institute and earn income with the concurrence of the Minister of Finance. The cash and bank balance as at the end of the year under review amounted to Rs.3,032,877.
(c) Treasury Circular No.IAI/2002/02 of 28 November 2002	A Register of Fixed Assets had not been maintained in respect of Computer Accessories and Software.

2.4 Transactions not supported by Adequate Authority

A sum of Rs.397,602 had been paid as incentives to the staff for the year under review without being obtained the approval of the Department of Management Services for the payment of incentives by the Institute.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the National Institute of Occupational Safety and Health for the year ended 31 December 2014 had resulted in a surplus of Rs.19,441,777 as compared with the corresponding surplus of Rs.12,722,049 for the preceding year, thus indicating an improvement of Rs.6,719,728 in the financial results for the year under

review. The increase of Government contribution by Rs.8,990,316 and operating income by Rs.2,270,588 had mainly attributed to the increase in the surplus.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) In terms of Section 1.2 of the Public Enterprises Circular No.58 of 29 April 2011 which should be based for the payment of allowances to the Board of Directors, this Institute had not been included in the relevant classification. Nevertheless, the provision for the payment of allowances to the Board of Directors had also not been clarified.
- (b) Action had not been taken either for effecting the transfer of the ownership of the building of the Ministry where the Institute is functioned at present or to enter into an agreement on the payment of rent with the Ministry.
- (c) Even though three Certificate Courses are being conducted and awarded certificates by the Institute, a register including the details of the persons who applied and successfully completed the courses and obtained the certificates had not been maintained. As such, the confirmation of the certificates of persons who completed the courses and obtained the certificates had been questionable.
- (d) Even though the term of office of the members of the Board of Directors was ended on 21 March 2015, those members had not participated in the meetings of Governing Councils after 25 November 2014.

4.2 Personnel Administration

The following observations are made in connection with the approved cadre and vacancies in the Institute.

- (a) The approved cadre in 13 posts as at 31 December of the year under review had been 25 while the actual cadre at present stood at 15. Accordingly, action had not been taken up to the date of audit to fill the 10 vacancies existed.
- (b) Matters on these vacancies had been pointed out in audit during the preceding years as well and it was observed that the activities of certain Divisions of the Institute were not functioning due to the failure to fill these vacancies. Further, it was observed in audit that difficulties may be arisen in the achievement of the objectives of the Institute due to the failure to recruit the essential officers.

5. Accountability and Good Governance

5.1 Action Plan

Action Plan and the Progress Report presented for the year had included only the physical targets while financial targets had not been stipulated.

5.2 Budgetary Control

Significant variances ranging from 31 per cent to 515 per cent were observed between the budgeted income and expenditure and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Budgetary Control