

National Institute of Labour Studies - 2015

The audit of financial statements of the National Institute of Labour Studies for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity 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 23 of the National Institute of Labour Studies Act, No. 12 of 2010. 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 the 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 Auditing 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.

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 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 Labour Studies as at 31 December 2015 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 Standard - 01

The name board of the Institute valued at Rs.295,300 that should be recognized as a non-current assets in accordance with the Standard had been brought to account as revenue expenditure.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Although accounts had been prepared on accrual basis, the liability amounting to Rs.194,805 relating to the acquisition of capital assets had not been brought to account.
- (b) Officers of the Department of Labour and the Ministry of Labour had been deployed in the Institute from the year 2011 to 2014 and salaries amounting to Rs.12,297,470 had been paid from the Heads of Expenditure of the Department and the Ministry. As this expenditure had not been adjusted to the accounts of the Institute, the accumulated surplus and the Government contribution to the Institute had been understated by that amount.
- (c) The motor vehicle valued at Rs.1,250,000 which had been received from the Ministry to be used as a pool vehicle had been brought to account as an assets of the Institute, though the ownership of the vehicle had not been transferred.
- (d) The direct bank deposit amounting to Rs.50,000 as at the end of the year under review, had not been identified and brought to account.

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

A Register of Fixed Assets on the Computers Accessories had not been maintained in accordance with the Treasury Circular No. IAI/2002/02 dated 28 November 2002.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the National Institute of Labour Studies for the year under review had resulted in a surplus of Rs.1,233,658 as compared with the corresponding surplus of Rs. 4,491,642 for the preceding year, thus indicating a deterioration of Rs.3,257,984 in the financial result of the year under review as compared with the preceding year. Although recurrent grants had increased by Rs.2,306,383 increase in the employees remuneration expenditure by Rs.5,710,296 had mainly attributed to this deterioration of the financial results.

An analysis of the financial results of the year under review with that of four preceding years revealed that, the surplus of income over expenditure of the Institute was ceaselessly declining and in taking into consideration the employees remunerations and the depreciations for the non-current assets, the contribution of the Institute amounting to Rs.7,260,727 in the year 2011 had decreased up to Rs.2,861,026 by the year 2013, but it had increased up to Rs.9,557,107 in the year 2015.

4. Operating Review

4.1 Performance

Establishment of a Division of Studies for Trade Unions, conduct of researches and surveys and providing training for the enhancement of labour studies in Sri Lanka and the performance of the matters connected or incidental thereto were the main objectives of the National Institute of Labour Studies. The following observations are made on the achievement of the objectives of the Institute.

- (a) Adequate activities had not been carried out to implement labour study programmes in collaboration with the local and international institutions and to ensure the welfare of the employees.
- (b) No activities whatsoever connected to the conduct of seminars, workshops, conferences and meetings relating to the labour studies, publication of magazines, journals, periodicals and books, conduct of researches and surveys and making arrangements for the courses related to the labour studies had been carried out during the year under review.
- (c) A formal library had not been establish for the provision of library and information services and their maintenance and made available for the students for utilization while close relationship had not been maintained with the national and international institutions, organizations, associations and societies that have the objectives similar to this Institute, though it was expected as an objective from this Institute.
- (d) Although the Institute had commenced courses including diploma courses on labour studies, assistance of the Universities and the similar institutions had not been obtained therefor.

In view of the overall matters, it was observed that out of the main objectives relating to the establishment of the Institute, only the conduct of courses pertaining to the labour studies is in progress and it had failed to achieve 05 main objectives specified in the Act, despite the lapse of five years from the inception of the Institute.

4.2 Conducting Courses

The following observations are made.

- (a) Out of 9 courses subjected to the audit test check, the income earned from 3 courses had increased by 27.9 per cent as compared with the preceding year and income of 06 courses had deteriorated by 27.7 per cent than the preceding year.
- (b) It was observed that the subject units had not been introduced relating to the course syllabus so as to enable the students to select subjects according to their requirements. Further, making it necessary for the students to follow compulsory units and the obtaining assistance of the Universities and similar institutions in terms of Section 3 (f) of the National Institute of Labour Studies Act, being at a low level had affected the performance of the Institute.

4.3 Management Activities

The following observations are made.

- (a) A data base including the details of the students relating to the courses conducted had not been established in the Institute and as such the identity of the students and the fact that the courses had been followed by them could not be confirmed.
- (b) As a Bank Account had not been opened for the National Institute of Labour Studies, the course income amounting to Rs.89,500 received by the Institute for the year 2011 had been credited to a Bank Account of the Ministry of Labour and Labour Relations. Although requests had been made to the Ministry to obtain that money, the Ministry had not granted this money up to 09 June 2016, the date of audit.
- (c) Without a written service agreement, the cleaning services of the Institute had been obtained from an external institution and a sum of Rs.1,135,118 had been paid in that respect even in the year under review from 02 December 2014.
- (d) A sum of Rs.86,400 had been paid to two resource persons as lecture fees in the year under review without the approval of the Board of Governors.
- (e) A sum of Rs.205,266 had been spent for the diploma and certificate awarding ceremony in the year 2015 without preparing an estimate of expenditure and obtaining approval therefor.

4.4 Underutilization of Funds

A considerable cash balance had been retained idling in the Bank Current Account since several preceding years and that balance by the end of the year under review was Rs.25,450,749. It was observed that an adequate attention had not been drawn on utilizing that money for the activities relating to the achievement of the objectives of the Institute.

4.5 Personnel Administration

The following observations are made

- (a) The approved cadre and the actual cadre of the Institute stood at 45 and 11 respectively by the end of the year under review and as such the number of vacancies was 34. Out of the officers employed in the Institute, 10 officers were the officers of the Ministry of Labour Relations and the Department of Labour, whereas the Institute had not taken action to recruit permanent officers even up to 30 June 2016. Such circumstances, indicated that there were difficulties in taking management decisions of the Institute and maintaining its performance at a higher level and that it had considerably affected the achievement of the objectives of the Institute.
- (b) Although a post of an Internal Auditor had been created in the approved cadre of the National Institute for Labour Studies, the relevant post remained vacant even by 30 September 2016.
- (c) The officers of the Ministry of Labour and Trade Union Relations and the Department of Labour had been attached to perform duties of the Institute. Although the cost of employees had been correctly adjusted in the financial statements for the year 2015 as the employees expenditure, it had not been so adjusted in the preceding years. Accordingly, employees' expenditure was lacking in considerably.
- (d) Even though expenditure amounting to Rs.50,505 had been incurred in February 2015 for publishing newspaper advertisements for 13 vacant posts of the Institute, recruitment had not been made up to 30 June 2016.

5. Accountability and Good Governance

5.1 Procurement Plan

The Institute had prepared a Procurement Plan amounting to Rs.2,496,000 under 15 items during the year under review. The following observations are made in this connection.

- (a) Thirty four items expected to be purchased according to the Procurement Plan during the year under review had not been purchased and 28 chairs and 02 air conditioners had been purchased exceeding the planned amount.
- (b) Accordingly, it was observed that the plan prepared for the purchases during the year under review was not effective and a sum of Rs.2,000,269 had been spent only for the purchase of 02 items and it represented 80 per cent of the estimated amount.

5.2 Annual Action Plan

The audit test check carried out on 19 courses planned for the year under review revealed that only 12 courses had been conducted and the course income had decreased by Rs.1,296,995 during the year under review.

5.3 Conduct of Audit and Management Committees

The meetings of the Audit and Management Committees in accordance with Section 7.4.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003 had not been held for the year under review.

6. Systems and Controls

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

Area of System and Control

Observations

(a) Accounting Activities	Failure to maintain accounts consistently by selecting Sri Lanka Public Sector Accounting Standards and accounting policies.
(b) Operating Activities	Even though targets should be set in order to achieve the general objectives of the Institute, adequate strategies had not been adopted for their achievement
(c) Budgetary Control	Failure to use the budget as an instrument in finance control.
(d) Staff Administration	Failure to take action to fill the vacancies.
(e) Library Administration	Library books should be made available for use.
(f) Fixed Assets Control	Failure to conduct Annual Board of Survey.