

National Institute of Occupational Safety and Health - 2015

The audit of financial statements of the National Institute of Occupational Safety and Health 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 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 the Financial Statements

The 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. 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 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 opinion, except 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 National Institute of Occupational Safety and Health 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

Assets and liabilities should not be set off against each other unless otherwise permitted or required by an Accounting Standard. However, a sum of Rs. 166,000 received for the ensuing year with respect to the Japanese Training Programme had been shown after being deducted from the balance of the accounts receivable.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a.) The accounting policy being followed by the Institute for recognizing the course income had not been disclosed in the financial statements. Course income amounting to Rs. 2,000,000 received for the preceding and the ensuing year had been included in the income of the Diploma courses of the year under review.
- (b.) The accounting policy on accounting the Government grants had not been disclosed in the financial statements. All recurrent and capital grants received by the Institute through the Ministry of Labour and Labour Relations up to the preceding year, had been accounted as revenue income, whereas it had been accounted as equity in the statement of financial position of the year under review.
- (c.) Recurrent and capital grants reimbursed by the Ministry for the preceding year amounting to Rs. 610,677 and Rs. 4,913,270 respectively, and recurrent and capital grants to be reimbursed for the year under review amounting to Rs. 3,421,259 and Rs. 585,885 respectively had not been properly identified and accounted.

2.2.3 Lack of Evidence for Audit

A sum of Rs. 267,500 remitted to the Ministry after being received from various institutions in the years 2009 and 2010, had been sent to the Treasury, and the amount had been accounted as deposits in the accounts of the Institute, but, it had not been confirmed by the Treasury.

2.3 Accounts Receivable and Payable

The contribution to the Widows' and Orphans' Pensions Fund amounting to Rs.143,151 and the sum of Rs. 1,170,961 to be reimbursed to the Department of Labour in respect of the period from January 2014 to December 2015, had not been settled to the relevant institutions even by the date of audit, on 04 May 2016.

2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

In terms of Public Finance Circular, No. 2/2014 dated 17 October 2014, the Board of Survey in respect of the preceding year should be conducted before 31 March of each year. However, the Board of Survey for the year 2015 had not been conducted even up to 04 May 2016, the date of audit.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the National Institute of Occupational Safety and Health for the year ended 31 December 2015 had been a surplus of Rs.7,086,785 as compared with the corresponding surplus of Rs.19,441,777 for the preceding year, thus indicating a deterioration of Rs.12,354,992 in the financial result for the year under review. Due to change of the accounting policy followed in the preceding years for accounting for the recurrent grants received from the Treasury, recurrent and capital grants totalling Rs.15,406,726 received in the year under review had not been identified as an income in the statement of financial performance, thus attributing to the said deterioration. In analyzing the financial results of the year under review and 04 preceding years, a financial surplus that had improved continuously from the year 2011 to 2014, was indicated. The financial result of the year 2015 had deteriorated due to non-consistency in accounting the Government grants for the years 2014 and 2015. In considering the employee emoluments, depreciation on the Property, Plant and Equipment, and Government taxes, the contribution of the Institute for the year 2011 amounting to Rs. 4,767,579, had continuously improved up to the year 2014. The contribution of Rs. 27,381,220 in the year 2014, had deteriorated by 42 per cent in the year 2015.

4. Operating Review

4.1 Performance

In terms of the National Institute of Occupational Safety and Health Act, No. 38 of 2009, the main objectives of the Institute includes : to advise the relevant Minister in the formulation of a national policy on occupational safety and health, and to conduct, undertake and assist in investigations, study programs, surveys and research in the field of occupational safety and health.

The objectives to be accomplished by the Institute in the year under review, and observations relating to the progress of achieving the objectives, are given below.

- (a.) Three courses scheduled to be conducted in the year under review, had not been conducted.
- (b.) Sufficient attention had not been drawn in achieving most of the objectives of the Institute during the year under review.

4.2 Operating Activities

The Institute awards certificates by conducting 02 Diploma courses, and 03 certificate courses since its inception, but a data base had not been maintained in respect of students applied and completed the courses successfully and students who obtained certificates. Hence, it was observed that it is likely that the Institute would face adversity in the event of confirming the certificates issued and this would pave way for a scam.

4.3 Management Activities

The following observations are made.

- (a.) Eventhough a total sum of Rs.5,644,437 had been incurred since a period of 10 years on the development of the building in which the Institute had been operated . However, action had not been taken to take over the ownership of the building.
- (b.) The increase of the course fees had mainly attributed to the increase in the targeted income planned for the year under review, and the approval of the Board of Directors had not been obtained in that connection.

4.4 Transactions of Contentious Nature

Without approval of the National Salaries and Cadre Commission together with the Ministry of Public Administration and Management, a sum of Rs.166,500 had been paid to a technical officer for the supply of resource contribution for the environmental surveys carried out by the Institute.

4.5 Personnel Administration

Vacancies existed for 14 officers including 06 officers of senior and retriary level category. Due to failure in making appointments to those posts, achieving the objectives of the Institute properly would be difficult. Those vacancies had been pointed out by the audit even in the preceding years.

5. Accountability and Good Governance

5.1 Audit Committees

Audit Committee meetings had not been held for the year under review in terms of Sub-section 7.4.1 of the Public Enterprises Circular, No. PED/ 12, dated 02 June 2003.

5.2 Procurement Plan

The following observations are made.

- (a.) Although a Procurement Plan had been prepared for the year under review, it had not been prepared in accordance with the Format 4.2.1 of the Procurement Guidelines, and the Plan had not been updated within a period not more than 06 months in terms of 4.2.1 (e) of the Procurement Guidelines.
- (b.) In terms of the Supplement 28 dated 04 July 2014 relating to the amendment made to Sections 3.4 and 3.6 of the Procurement Guidelines, purchases should be made by obtaining at least 03 quotations under the shopping method. Contrary to that, plastic chairs and tables valued at Rs. 214,000 had been purchased based only on one quotation.

5.3 Tabling of Annual Reports

In terms of Section 18 of the National Institute of Occupational Safety and Health Act, No. 38 of 2009, Annual Reports of the Institute for the years 2013, and 2014 had not been tabled.

6. Systems and Controls

Deficiencies 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.

Areas of Systems and Controls	Observations
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(a) Control of Operations	Failure to utilize the strategies adequately to accomplish the targets planned.
(b) Budgetary Control	Failure to use the budget as an instrument of financial control.
(c) Personnel Administration	Failure to take action to fill vacancies.
(d) Control of Fixed Assets	Failure to conduct annual Boards of Survey