

National Institute of Occupational Safety and Health – 2017

The audit of financial statements of the National Institute of Occupational Safety and Health for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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. A detailed report in terms of Section 13 (7) (a) of the Finance Act, was issued to the Chairman of the Institute on 08 June, 2018.

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 for the effect 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 2017 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

The following observations are made.

(a.) **Sri Lanka Public Sector Accounting Standard 07**

The following observations are made.

- (i) Household appliances and medical equipment costing Rs. 937,760 had been revalued to Rs. 429,000 in the year under review, and that revalued amount had been stated as addition of assets, but action had not been taken to identify the cost and accumulated depreciation thereof thereby eliminating from accounts.
- (ii) In terms of Paragraph 43 of the Standard, the fair value of items of Property, Plant and Equipment is usually their market value determined by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. Nevertheless, the assets of the Institute had not been revalued by a Committee qualified properly in such a manner.
- (iii) In terms of Paragraph 49 of the Standard, if an item of Property, Plant and Equipment is revalued, the entire class of Property, Plant and Equipment to which that asset belongs shall be revalued. However, action had not been taken in that manner with respect to items costing Rs. 15.7 million and belonging to 2 classes of asset.

- (iv) When a class of Property, Plant and Equipment is revalued in terms of Paragraph 90 of the Standard, the facts to be made available from (a) to (g) of the Standard had not been disclosed.

(b.) Sri Lanka Public Sector Accounting Standard 02

The following observations are made.

- (i) Although the allocations for employee gratuity for the year under review had been Rs. 312,393, that value had been adjusted as Rs. 250,278 in the cash flow statement.
- (ii) Although the adjustments for the preceding years totalling Rs. 772,400 had not been adjusted to the income of the year under review, that had been adjusted under non-financial adjustments in the cash flow statement.
- (iii) Write-offs for 04 years amounting to Rs. 660,000 with respect to medical equipment received by the Institute as donations without financial impact, had been adjusted as deductions of trade and other payables under working capital adjustments in the cash flow statement.
- (iv) Although the sum incurred in the year under review for purchasing Property, Plant and Equipment amounted to Rs. 3,997,265, a sum of Rs. 4,086,265 was shown in the cash flow statement as the acquisition of Property, Plant and Equipment including the revalued amount of Rs. 89,000 for the furniture.
- (v) The interest income of the year amounting to Rs. 8,673,884 had not been adjusted to the surplus. The interest income of Rs. 1,372,664 received in cash had been shown as a cash outflow instead of being shown as a cash inflow under investment activities.

2.2.2 Accounting Policies

The following observations are made.

- (a.) A new accounting policy had been followed in the year under review in order to account the donations valued at Rs. 1,650,000 and received by the Institute from the National Science Foundation in the year 2013. However, that had not been disclosed in the financial statements. When a voluntary change in accounting policy has an effect on the current period or any prior period, that effect should be disclosed in terms of Paragraph 34 of the Sri Lanka Public Sector Accounting Standard 03, but it had not been done so.

- (b.) According to the financial statements presented for the year under review, the useful life of plant and machines had been 10 years. However, depreciation had been computed thereon by considering the useful life to be 5 years.
- (c.) Treasury provision amounting to Rs. 2,220,827 and Rs. 2,028,664 had been granted to the Institute through the annual budget for the year 2017 as revenue expenditure and capital expenditure respectively. However, as for accounting those monies, accounting policies had not been identified in accordance with Paragraph 12 of the Public Sector Accounting Standard 03 and disclosed.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a.) A sum of Rs. 188,700 had been spent on 15 May 2015 for calibration of the medical instrument named Air Sampling Pump model Gil Air 3 RC valued at Rs. 288,403. The value had been capitalized to the relevant asset though, depreciation up to the year under review totalling Rs. 75,480 had not been brought to the accounts.
- (b.) Recurrent grants amounting to Rs. 308,188 reimbursed by the Treasury in the year 2017 for recurrent expenditure had been brought to accounts as capital grants.
- (c.) A sum of Rs. 15,975 spent from petty cash had not been brought to accounts as expenses of the year under review. As such, the profit of the year had been overstated by that amount.
- (d.) When the donations valued at Rs. 1,650,000 and received by the Institute from the National Science Foundation in the year 2013 had been brought to accounts, the writing off of donations valued at Rs. 165,000 in the year under review, had been credited to the allocation of depreciation account instead of being brought to accounts as other income.
- (e.) As Government grants had been brought to accounts on accrual basis, a sum of Rs. 3,628,340 had been shown under current assets in the statement of financial position as being receivable from the Ministry.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a.) A balance of Rs. 267,500 as Treasury Account had remained unsettled over 7 years from the year 2010 under non-current assets in the statement of financial position for the year under review. As it was not possible to obtain the said amount from the Ministry of Finance, the Audit was informed by the Chairman that action would be taken to write off that amount in the future.

- (b.) According to the financial statements, action had not been taken even up to the year under review either to provide the relevant service or settle an advance of Rs. 204,137 received from the clientele. The delay with respect to the failure in settling that advance ranged from 12 to 30 months.
- (c.) The officer released by the Department of Labour for 2 years from 01 January 2012 to 31 December 2013, had served this Institute as the Directress General, and it had been requested that the amount of Rs. 1,170,996 paid as salaries, be reimbursed to the Department of Labour. Accordingly, allocations had been made in the year 2013 for the total expenditure on salary, but no action had been taken to settle that liability despite a lapse of 05 years.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review had been a surplus of Rs. 18,534,446 as compared with the corresponding surplus of Rs. 15,801,620 for the preceding year, thus indicating an improvement of Rs. 2,732,826 in the financial result for the year under review. The increase in the operating income of the year by Rs. 5,391,978 had mainly attributed to the said improvement.

The analysis on the financial results for the year under review and 04 preceding years indicated that the surplus of the year 2014 amounting to Rs. 19,441,777 had decreased to Rs. 18,534,446 by the year 2017. Once the employee remuneration and provision for depreciation on non-current assets had been taken into account, the overall contribution of the Fund in the year 2013 amounting to Rs. 17,104,796 had deteriorated to Rs. 12,721,122 in the year 2015. Nevertheless, the contribution had improved to Rs. 28,918,806 in the year under review.

4. Operating Review

4.1 Performance

4.1.1 Planning

A Corporate Plan had been prepared by the Institute relating to the period 2017-2022. But, the potential of the enterprise for achieving the objectives of establishing the Institute, weaknesses, opportunities in the business environment, and impediments had not been evaluated.

4.1.2 Functionality and Review

The following observations are made.

- (a.) In terms of Section 3 (1) h of the National Institute of Occupational Safety and Health Act, No. 38 of 2009, it is an object of the Institute to undertake or collaborate in the collection, preparation, dissemination and publishing of information relating to occupational safety and health, but the Institute had not acted in that manner.
- (b.) In terms of Section 3 (1) (n) of the said Act, it is an object to establish national standards in the field of occupational safety and health. However, such national standards had not been in use even by the end of the year under review.

4.2 Management Activities

A training programme on skills development relating to occupational safety and health had been held in the year under review for the Northern and Eastern provinces of Sri Lanka in accordance with the Agreement entered into by the Institute with the International Labor Organization. However, expenses amounting to Rs. 1,375,326 had been incurred on the programme and the balance amount of Rs. 924,063 had been identified as an income of the Institute without being remitted. A sum of Rs. 2,229,389 had been received from the International Labor Organization for that programme, and in case of any amount saved without being utilized after conclusion of the programme, that amount should be remitted to the said Organization in terms of Paragraph 4.6 of the Agreement.

4.3 Commencement of Projects on Lands / Properties not Vested Properly

The ownership of the land and building located at No. 97, Jawatta Road in which the Institute is maintained, had been vested in the Industrial Security Division of the Department of Labor on 08 June 2007. Action had not been taken even by 30 June 2017 to properly vest those assets in the Institute. Without taking over the ownership, capital expenses amounting to Rs. 1,121,965 and Rs. 5,644,437 had been incurred thereon in the year under review and the preceding year respectively.

4.4 Staff Administration

Although 09 years had elapsed since the establishment of the Institute, vacancies in the staff thereof existed over extensive period. By the end of the year under review, 08 vacancies existed including 04 vacancies in the senior management, and 04 vacancies in the operational level.

4.5 Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every state institution should act in compliance with 2030 Agenda for Sustainable Development adopted by the United Nations. However, the National Institute of Occupational Safety and Health had not been aware as to how to act with respect to the activities under their purview in the year under review. Hence, action had not been taken to identify the sustainable development goals linked to those activities, targets and the milestones, and the indicators to measure the achievement of those targets.

6. Accountability and Good Governance

6.1 Procurement and Contract Process

6.1.1 Procurements

The following observations are made.

- (a.) Bids had been invited to obtain luxury vans and cars on rent in view of transportation requirements of the Institute. However, when bids had been evaluated, it had later been decided that the “*Nano Cab Service*” would be sufficient to fulfil the transportation requirements of the Institute, and only one bid had been received in that connection. As such, the Institute had been deprived of the opportunity to obtain the service at best price.
- (b.) In terms of Guideline 6.3.2 of the Government Procurement Guidelines-2006, late bids shall not be accepted and shall be returned unopened. However, when purchasing 03 portable Hemoglobin Analyzers valued at Rs. 150,000, and 600 Strips, each valued at Rs. 65 for the Institute in the year under review, the said items had been purchased from an institution that had submitted bids after the final date for submission of bids mentioned in the bid documents.

7. 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.

Areas of Systems and Controls

Observation

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| (a.) | Identification of Revenue | Existence of instances in which revenue had been identified without issuing invoices. |
| (b.) | Staff Administration | Failure to take action to fill vacancies which had been essentially necessary for achieving the objective of the Institute. |
| (c.) | General Administration relating to Information Technology | Failure of the Institute to establish and maintain a database relating to occupational hazards. |
| (d.) | Procurement Process | <ul style="list-style-type: none"> • Failure to prepare bid documents by mentioning the date, time and place of opening bids. • Failure to appoint and approve a Committee for opening bids. • Failure to use the Formats in reporting the opening of bids specified in the Procurement Guidelines. |