

National Institute of Labour Studies – 2017

The audit of financial statements of the National Institute of Labour Studies 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 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. A detailed Report in terms of Section 13(7)(a) of the Finance Act, was furnished to the Chairman of the Institute on 30 June 2018.

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 Institutes (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 judgment, 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 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 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

Following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard-02**

Cash flow from the interest received that should be disclosed separately in accordance with the paragraph 40 of the Standard had been shown as Rs.11,678,177 after adjusting Rs.1,467,752 of interest income, Rs.210,385 of withholding tax and Rs.10,000,000 of Investment amount for the year in the cash flow statement.

(b) **Sri Lanka Public Sector Accounting Standard-07**

The depreciation of an asset that should be started after the available for use in accordance with the paragraph 69 of the Standard had been depreciated for the whole year of purchasing year, therefore the depreciation for the year had been overstated by Rs.280,819.

(c) **Sri Lanka Public Sector Accounting Standard-09**

The Institute had expended Rs.553,526 for printing of T-shirts and the expended amount had been fully written off as an expense for the year. Though, there was a T-shirt stock amounting to Rs.181,322 as at 31 December 2017, Institute had not disclosed it as the closing stock, in accordance with the paragraph 12(h) and as a result, the surplus of the year had been understated by Rs.181,322.

(d) **Sri Lanka Public Sector Accounting Standard-10**

When recognizing the income from service rendered, the final situation of the transaction should be considered in accordance with the paragraph 19 of the standard, the Institute had accounted a sum of Rs.7,263,000 of income from the Diploma courses for the year 2017, which consist an income related to the courses conducted in 2018.

2.2.2 Accounting Policies

The Institute had not provided a provision for doubtful debtors, though there was an unrecoverable amount out of receivable income from courses and programs and the amount due from students who relinquish the courses.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Interest income from two fixed deposits amounting to Rs.592,885 relating to the year 2018 had been accounted as an income for the year under review.
- (b) When accounting the salaries of the Institute, the gross salary had been adjusted instead of the net salary, as a result the employees' salary had been understated by Rs.349,694 in the Statement of financial performance.
- (c) Although the Institutes' share of 12 per cent of the employees provident fund amounting to Rs.524,541 should be shown as the expense of the Institute, the amount of Rs.874,235 of 20 per cent share of employees provident fund with the employee's share had been accounted as the expense for the year and as a result, the surplus of the year had reduced by Rs.349,694.
- (d) Course fees income relating to 10 students who were registered in 2016 – 2017, amounting to Rs.770,000 Rs.77,000 per person had been identified as an income for the year 2016. Nevertheless the students relinquish the courses, further receivable to the institute as unrealized income amounting to Rs.441,500 should be adjusted to the accumulated fund, only a sum of Rs.275,500 had been adjusted.

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

A division of Studies for Trade Unions had not been established to execute the objectives of the act in accordance with the section 17 of the Act No 12 of 2010, Institute of National Labour Studies.

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.5,149,301 as compared with the corresponding surplus of Rs.329,186 for the preceding year, Therefore, it is observed a growth of Rs.4,820,115 in the financial result of the year under review as compared with the preceding year. Although operational expenses of the institute had increased by Rs.7,550,935, increase in operational income by Rs.9,884,139 and Treasury recurrent grants by Rs.2,486,912 had mainly attributed to above growth of the financial results.

An analysis of the financial results for the year under review with four preceding years revealed that, the surplus amounting to Rs. 502,932 in the year 2013 had been increased up to Rs.5,149,301 in the year 2017 with fluctuations and in taking into consideration the employees remunerations and the depreciations for non-current assets, the contribution of the Institute amounting to Rs.2,458,919 in the year 2013 had increased up to Rs.14,718,856 in the year 2017.

4. Operating Review

4.1 Performance

4.1.1 Planning

Although, a corporate plan to manage with a vision of short term and a long term should be prepared for minimum of three years period, a corporate plan had not been prepared to achieve the proposed targets of the Institute.

4.1.2 Operations and Review

The following observations are made.

- (a) Even though the establishment and maintenance of libraries and information providing services is a main objective of the Institute, library had not been maintained properly for the use of students thus there was a library to fulfill above objectives.
- (b) A strategic arrangement was not there with the Institute for the publication of magazines, journals, periodicals and books though it is an objective of the established act of the Institute.
- (c) Following observations are made according to the 2017 action plan
 - i. Although an amount of Rs.1.5million had been estimated for 03 donor funded projects, no any project was done in the year under review.

- ii. Though the Institute had estimated Rs.1million for two research projects, only one project of Rs.1.2million had been done.50 per cent of the target had not been achieved by the Institute.

4.2 Management Activities

The following observations are made.

- (a) Though the participants had been informed to do payments on or before the programme date for one day, two days, three days and special programmes which held by the Institute in the year under review, because of the non-execution of it, Fees of Rs.92,000 could not be recovered even March 2018 from 08 Institutes was observed in sample test which held in the year under review.
- (b) Though the Institute had informed to the students to made payments on or before the course date relevant to the year of 2016, because of the weaknesses in the internal control, a sum of Rs.284,800 had been written off as course fees could not be recovered from short term courses.
- (c) Due to the weakness in follow up procedure on realization of recognized income receivable on special programmes, diploma courses, workshops and conducting examinations amounting to Rs.10,502,928 could not be recovered by the end of the year under review.

4.3 Operational Activities

The following observations are made.

- (a) According to the agreement entered in 2016, between the Institute of UN Women and the Institute of Labour Studies, a research project should have been implemented about the employment of women from 01 April 2016 to 31 December 2017. Though the 72 per cent of the project money had been utilized, the preliminary survey had not been finished by the end of the year under review. As the financial rules of the above Institution could not been followed by the Institute, out of the advances given a sum of Rs.558,263 had been again paid to the said Institution on 04 September 2017.
- (b) A private security firm had been engaged for supply of security service to the Institute. As per the agreement, agreed period was elapsed on 16 October 2017, but without the time extension the service had been obtained till December 2017 and a sum of Rs.247,990 had been paid for that period.

4.4 Underutilization of Funds

There were balances ranging from Rs.4,275,752 to Rs.21,411,748 in the Bank Current Account from January 2017 to September 2017. In accordance with Section 8.2.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003 and the section 4(d) of the National Labour Studies Act, the excess money had not been invested to earn income with the approval from the relevant parties. Also, the working capital requirement had not been reviewed by the Board of Directors in accordance with the 4.2.5 of that circular.

4.5 Personnel Administration

The approved cadre of the Institute as at 31 December 2017 was 45 and 03 Top management posts, 07 Tertiary level posts, 10 Secondary level posts and 02 Primary level posts, altogether 22 posts were vacant. Actions had not been taken to fill these vacancies for the year.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

According to the United Nations year 2030 on Sustainable Development, every Public entity should act in accordance with its agenda, and the Institute was not aware how it would perform its functions within the scope of the National Institute of Labour Studies relating to the year under review.

(a) As unaware about United Nations year 2030 on Sustainable Development, Goals, targets, milestones and indicators actions had not been taken to identified relating to the Institutes' activities.

6. Accountability and Good Governance

6.1 Internal Audit

The internal audit of the Institute for the year 2017 should be done by the Ministry of Labour and Trade Union Relations in accordance with F.R. 133(b), an internal audit relating to the institute had not been done during the year 2017. 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 the end of the year under review.

6.2 Budgetary Control

As variations ranging from 100 per cent to 506 per cent were observed between the budgeted expenditures and the actual expenditures in the year under review, the Budget had not been made use of as an effective instrument of management control.

7. 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) General Controls over
Information Technology

A data base including the details of the courses conducted had not been established in the Institute.

(b) Procurement Procedure

(i) Notice of Invitation for bid had been prepared without mentioning the Bid opening date, time and venue.

(ii) Non-Approval of the bid opening committees.

(iii) The Institute had not used the specific formats for bid opening as per the procurement guidelines and the committee members had not signed.

(iv) Bidding invitation documents had been draft without matching to the Institutes' requirements.