

**1.1 Disclaimer of Opinion**

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The audit of the financial statements of the National Institute of Labour Studies for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes of net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 in conjunction with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, on the matters described in paragraph 1.5 of this report, the financial statements of the Institute give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and its cash flows for the year then ended. I could not be able to express an opinion whether it had been prepared in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Disclaimer of Opinion**

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My opinion is disclaimer based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibility, under this auditing standards are further described in portion of the auditors responsibilities for the auditing of financial statements. Because of the significance of the matters described in paragraph 1.5 of this report. I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

## 1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute.
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements**

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Entities are required to “devise and maintain” a system of internal accounting controls, sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

<b>Audit observation</b>	<b>Management’s comment</b>	<b>Recommendation</b>
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(a) Invoice is the basic document use for the accounting of workshops and programmes conducted by the Institute so many instances were observed in audit the invoices had not been prepared as per serial number order, the accuracy of the revenue amounting to Rs.42,757,709 had included into the computerized accounting package up to the end of the year under review fair confirm could not been obtained in audit.	Issuing of invoices for the courses conducted by the divisions existing in the Institute from the year 2019 had been done only the quick book package of the Accounts Division. However, revenue amounting to Rs.42,757,709 could be confirm in correctly, relevant documents had been presented to the audit.	Work should be done by the management in introducing the necessary internal control system and to implement those to maintain accounting process in update and correctly.

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| <p>(b) The data included into the computerized accounting software of the Institute the alterations and erases had not been done under the supervision and approval of the responsible officer of the Institute. Also restrictions had not been done in limited access/ full access by using password for the security of the accounting system, data relating to the revenue had not been included based on the basis documents like internal control deficiencies were observed in audit and erases had been done in relating to 22 transactions value amounting to Rs.1,523,510 in accounting software's had not knowingly by the top management.</p> | <p>Entering the data into the Quick Book accounting software data had not enter only by the lady accountant, while entering the transactions has been done by 3 officers also. Supervision of the system and in checking whether there is mistakes necessary alterations has been done by the lady accountant. The accountant has power to correct the normal mistakes when entering the data when doing the accounting functions with the quick book accounting software during the year 2019 by each officer the limitations of access has been done by separate passwords to fulfil the relevant activities only.</p> | <p>Action should be take by the management to establish the suitable internal control criteria to confirm the safety and confidentiality of the accounting software and Correctness of the informations.</p> |
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**1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards**

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**Non-compliance with reference to relevant standard**

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**Sri Lanka Public Sector Accounting Standard 02**

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Even though fixed deposit interest income of Rs.1,668,064 should be shown as cash in flow in the cash flow statement in according to the standard it had been shown as cash out flow from the Institute.

**Comments of the Management**

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Interest income from fixed deposits received from investment activities had been adjusted to the surplus of the year, because of that adjustments had not been made in the cash flow statement as a cash inflow.

**Recommendation**

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Financial statements should be prepared by the Institute in compliance to the Sri Lanka Public Sector Accounting Standards.

### 1.5.3 Accounting Deficiencies

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#### Audit observation

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Although balance of the fixed deposits had been shown in the financial statements as at 31 December 2018 was Rs.23,739,447 however the balance shown in the certificate of the fixed deposits renewal was Rs.22,041,444 then there was a difference of Rs.1,698,003 between that balances.

#### Management's comment

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Balance of the fixed deposits had been calculated in correctly and it is confirm the balance as at 31 December 2018 was Rs.23,739,447.

#### Recommendation

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The Institute should be work to maintain the Notes of the accounts in correctly could be able to supply the correct data to the parties who are taking the economy decisions using the financial statements.

### 1.6 Accounts Receivable and Payable

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#### 1.6.1 Accounts Receivable

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#### Audit observation

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Various programmes/ workshops hold by the Institute and in respect of exams a sum of Rs.12,822,429 receivable for the year 2017 and it was Rs.15,320,597 as at 31 December 2018. Out of that a sum of Rs.6,824,450 was receivable more than 90 days.

#### Management's comment

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Out of the receivable amount of Rs.15,320,597 as at 31 December 2018, total sum of Rs.11,412,045 had been received to the Institute as at 31 March 2019. That taken as a percentage of the receivable total amount was only 75 per cent.

#### Recommendation

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To recover the receivable amounts in quickly to the Institute attention should be paid by the Institute in efficiently and fruitful tricks should be develop.

### 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

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Reference to the Laws, Rules and Regulations	Non-compliance	Comments of the management	Recommendation
(a) 175 (1) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Action had not been taken by the Institute to maintain a report minute as a form of control account according to show the progress of the cash collection from the various courses.	Necessary instructions has been given to work in future by a control account in connection with receivable cash from the participants and receivable amount from the courses conduct by the Institute.	Management responsibility is the introduce suitable control methodology for the collection of revenue of the Institute.

- (b) Paragraph 2 and 3 of Human Resources Instructions has been gave In identifying the staff the circular Development Plan had to prepare a human skills, work should be No.02/2018 of the not been prepared by the resources development taken to prepare a Public Administration Institute and had not plan of the National human resources dated 24 January 2018. identified the staff skill Institute of Labour Studies. development plan like that. paragraph 3 of that requisites in terms of the circular.

## 2. Financial Review

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### 2.1 Financial Result

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The operational result of the Institute was a surplus of Rs.8,573,023 and the previous year corresponding surplus was Rs.5,149,301. Therefore, it was observed a growth of Rs.3,423,722. Increasing of operational income by Rs.13,121,903 and Treasury recurrent grants by Rs.524,686 in relating to the previous year had mainly attributed for this.

## 3. Operational Review

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### 3.1 Procurement Management

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Audit observation	Management's comment	Recommendation
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<p>Although a estimate amounting to Rs.2 million had been prepared for the purchasing of 2 photocopy machines to the Institute as per the procurement plan Technical Evaluation Committee had not been appointed before beginning of the procurement activity as per the Procurement Guideline 2.8.1 (b). Although purchasing specifications should be reviewed by that committee on the purchasing of technical goods like this, that review had not been functioned as per procurement guideline 5.3.1(d)</p>	<p>Accepted. Attention had been paid about the audit matters in future procurement functions.</p>	<p>The functions should be done in compliance to the precise instructions and guidelines shown in the procurement guideline.</p>

#### 4. Accountability and Good Governance

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##### 4.1 Annual Action Plan

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###### Audit observation

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Even though, it had been estimated to earn an income of Rs.7,150,000 during the year 2018 by conducting diploma courses by the Institute, but conducting only 4 courses obtained income was only Rs.5,100,000. Also, it had been planned to earn revenue amounting to Rs.5,670,000 in conducting 2 days 63 workshops during the year 2018, but in actually conducted only 39 programmes and revenue amounting to Rs.3,600,000 had earned. Further, it had been planned to earn revenue amounting to Rs.2,970,000 in conducting one day 66 programmes during the year 2018 but in actually revenue amounting to Rs.2,580,000 was only earned.

###### Management's comment

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The plan had been made to obtain income of Rs.7,150,000 in conducting 06 diplomas during the year 2018 by the National Institute of Labour Studies the Institute able to obtained a revenue amounting to Rs.5,100,000 by conducting 4 diplomas the plan also had been made to obtained revenue amounting to Rs.5,670,000 by conducting 2 days 63 programmes during the year 2018 by the National Institute of Labour Studies, the Institute able to earn a sum of Rs.3,600,000 by conducting only 39 programmes, the plan had been made to obtain revenue amounting to Rs.2,970,000 by conducting 1 day 66 programmes during the year 2018 by the National Institute of Labour Studies during the year 2018, the Institute able to earn a sum of Rs.2,580,000 by conducting only 43 programmes.

###### Recommendation

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The Institute should take every effort to implement the planned programmes in optimum level and the action should be take to achieve the targets which are mentioned in the Activity plan also.