

## Head 193 - Ministry of Labour and Trade Union Relation

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### 1 Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statement of the Ministry of Labour and Trade Union Relation for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended, 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 provisions of the National Audit Act, No. 19 of 2018. The summary report including my comments and observations on the financial statements of the Ministry of Labour and Trade Union Relation was issued to the Accounting Officer on 13 June 2019 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018, and the Detailed Annual Management Audit Report relating to the Ministry in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 31 May 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Standards.

#### 1.2 Basis for Qualified Opinion

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### 1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements

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The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 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.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Ministry 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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that effective internal control system for the financial control of the Ministry exists,

and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### 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 Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Chief Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

#### 1.5 Report on Other Legal and Regulatory Requirements

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I express the following matters in accordance with Section 6 (d) and Section 38 of the National Audit Act, No. 19 of 2018.

Since there was no requirement for the Ministry of Labour and Trade Union Relation to prepare financial statements for the preceding year, it could not be stated that the financial statements presented for the year under review were consistent with the preceding year. As such, recommendations on the financial statements had not been made.

## 1.6 Comments on Financial Statements

### 1.6.1 Non-compliances of the Financial Statements with Provisions of Circulars

The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
According to the printouts of the Treasury, the expenditure incurred by the other Ministries and Departments in terms of Financial Regulation 208 under the Head of Expenditure of the Ministry amounted to Rs. 20,490,471, but the expenditure shown in the financial statement amounted to Rs. 13,108,077.	The Ministry should act in accordance with State Accounts Circular, No. 267/2018, dated 21 November 2018	Accepted. According to the printouts of the Treasury, the expenditure incurred by the other Ministries and Departments in terms of Financial Regulation 208 under the Head of Expenditure of the Ministry, should be corrected in the manner of Rs. 3,616,439, and Rs. 16,813,978 as recurrent expenses and capital respectively.

### 1.6.2 Statement of Financial Performance

The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
A sum of Rs. 6,038,704 had been shown as other receipts in the statement of financial performance. However, according to the monthly account summary, the value of other receipts was observed to be Rs. 6,051,779.	The Ministry should take action to record the non-revenue receipts accurately.	Even though a sum of Rs. 6,038,704 had been shown as other receipts in the statement of financial performance, the value thereof amounted to Rs. 6,051,779 as per the monthly account summary thus understating a sum of Rs. 13,075. It is noted to rectify the difference of Rs. 13,075 in the monthly account summary.

### 1.6.3 Property, Plant and Equipment

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
a) A difference of Rs. 43,948,452 was observed between the opening	Accurate and complete reports should be maintained on Property, Plant and	It is accepted that there exists a difference between the opening balances shown in the statement of non-financial assets of the year

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| <p>balances shown in the statement of non-financial assets of the year under review and closing balances of the preceding year.</p>   | <p>Equipment.</p>   | <p>under review and closing balances of the preceding year.</p>  |
| <p>b) A sum of Rs. 10,000,000 spent in the year 2016 on the constructions of labor quarters had not been brought to accounts in that year. The said value had been brought to accounts under buildings and constructions in the years 2017 and 2018. Accordingly, the value of buildings and constructions had not been accurately shown in the financial statements and Treasury reports of the year under review.</p> | <p>Accurate and complete reports should be maintained on Property, Plant and Equipment.</p> | <p>It is accepted that the value relating to the construction of labor quarters in the year 2016, had not been included in the buildings and constructions. Action will be taken to accurately include that value under buildings and constructions in the ensuing year.</p> |
| <p>c) Of the provision made for purchasing machines and instruments under a capital Object for the National Institute of Occupational Safety and Health, a sum of Rs. 3,000,000 had been spent on beautification of the Institute. As the expenditure on beautification had been brought to accounts under machines and instruments, the value of machines and instruments had been overestimated by that amount.</p>   | <p>Specific capital provision should be utilized only on the intended purposes.</p>         | <p>Accepted. Instructions have been issued to correct the accounting process in the future.</p>  |
| <p>d) Laboratory instruments worth Rs. 4,054,277 purchased for the National Institute of Occupational</p>   | <p>Should be accounted under correct items of asset.</p>                                    | <p>It is accepted that the laboratory instruments worth Rs. 4,054,277 purchased by the NIOSH, had been accounted under electrical fittings by mistake.</p>   |

Safety and Health, had been brought to accounts under electrical fittings.

- e) A difference of Rs. 6,676,310 was observed between the value for the acquisition of capital assets in the year 2018 according to the statement of non-financial assets, and the value for the acquisition of capital assets as per the report of financial performance. The values relating to the same subject shown in the financial statements and the schedules should be equal. It is accepted that the error had occurred due to a recording deficiency. Action will be taken for rectification.
- f) According to the report presented to the Comptroller General, the value of other machines and instruments totaled Rs. 42,420,371. However, the said value had been shown as Rs. 42,701,299 in the statement of non-financial assets. As such, a difference of Rs. 280,927 was observed. The register of assets with the Comptroller General, and the register of assets of the Ministry should be timely reviewed and updated. According to the instructions of the Department of Treasury Operations, all the assets of the Ministry had been inputted to the CIGAS programme as opening balances. The said difference of Rs. 280,927 is a collection of several items that had not been included in the report presented to the Comptroller General by the Office of the Commissioner for Workmen's Compensation.

#### 1.6.4 Reconciliation Statement on the Advances to Public Officers Account

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The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Chief Accounting Officer -----
The loan balance of Rs. 290,715 receivable from 02 officers who had vacated the service or been retired, remained due over a period of 05 years.	Action should be taken for the recovery in terms of Chapter XXIV of the Establishments Code.	Action is taken to settle the outstanding loan balance of Mr. A. J. M. Korala, a former Management Assistant, with the Department of Pensions. Action has been taken to take legal action through the Attorney General's Department for the recovery of outstanding loan balance of Mrs. W. D. G. C. Sugathadasa who had vacated the post.

1.6.5 Lack of Evidence for Audit

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The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Chief Accounting Officer -----
Files had not been made available to the Audit in order to examine the agreement valued at Rs. 97,594,204 entered into with a private institution for interior designing of the <i>Mehewara Piyasa</i> building.	The Ministry should adhere to Section 42 of the National Audit Act and Article 154 of the Constitution, and provide the documents and books required for auditing, for the Auditor General or an officer authorized by him.	Not replied.

1.6.6 Assurances to be Made by the Chief Accounting Officer

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Audit Observation -----	Recommendation -----	Comment of the Chief Accounting Officer -----
The Chief Accounting Officer should ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alternations as required for such systems to be effectively carried out. Such reviews should be made in writing and a copy thereof should be presented to the Auditor General. However, no explanation was made to the Audit that a review had been made.	Action should be taken in accordance with provisions of Section 38 of the National Audit Act, No. 19 of 2018.	Action will be taken to ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews in writing to monitor the effectiveness of the system thereby furnishing a copy thereof to the Auditor General .

1.6.7 Non-compliances with Laws, Rules, and Regulations

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Reference to Laws, Rules, and Regulations	Non-compliance	Recommendation	Comment of the Chief Accounting Officer
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a) Section 41 (2) of Part VII of the Workmen's Compensation Ordinance, No. 19 of 1934.	In case the employer defaults on paying compensation when an accident happens to an employee, the movable and immovable property of the employer may be seized and sold in public auction. The monies received through the sale can be paid as compensation to the employee. There existed 40 cases over which compensation totalling Rs. 10,908,002 could not be recovered with delays ranging from 01 month to 117 months since the warrants had been issued.	Action should be taken in accordance with the regulations of the Compensation Ordinance, thus promptly paying compensation to the beneficiaries.	The execution warrant issued by the Labor Tribunals along with the verdict had been sent to the Magistrate Court of the area in which the relevant employer had lived. However, the recovery of compensation had been delayed due to the delay of the said Court in proceeding with the execution warrant.  In order to prevent such delays, action has already been taken to amend Sections 41 (1), and 41(2) of the Workmen's Compensation Ordinance.

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
<p>a) The saving out of the sum of Rs. 258,927,400 provisioned on 37 recurrent Objects, amounted to Rs. 46,399,865. Of that, the saving in the range of 20 per cent – 100 per cent, represented Rs. 26,834,988.</p>	<p>Action should be taken to prepare estimates on expenditure as accurate and efficient as possible in terms of Financial Regulation 50.</p>	<p>The saving was accepted with reasons given in regard to each Object.</p>
<p>b) A provision of Rs. 200,000,000 had been made through the annual estimates on interior designing of the area that had been allocated to the Ministry in the <i>Mehewara Piyasa</i> building. However, due to failure in completing those works during the year 2018 as planned, 90 per cent of those provision had been saved.</p>	<p>Plans should be prepared and implemented properly ensuring efficient and productive utilization of the provision.</p>	<p>As the constructions of the main building had not been completed within the schedule, the contractor had delayed handing over the floors belonging to the Ministry, thus delaying the commencement of interior designing. As such, those activities could not be completed within the year 2018.</p>
<p>c) Only 10 per cent of the capital provision amounting to Rs. 7,000,000 made for the National Institute of Occupational Safety and Health (NIOSH), had been utilized during the year.</p>	<p>Plans should be prepared and implemented properly ensuring efficient and productive utilization of the provision.</p>	<p>Due to non-receipt of imprests, only 10 per cent of the capital provision amounting to Rs. 7.0 million made on NIOSH, had been utilized during the year.</p>
<p>d) Of the provision amounting to Rs.</p>	<p>- Do.</p>	<p>Explanations have been given for the saving.</p>



508,450,000 made for 15 capital Objects, provision in the range of 90 per cent – 100 per cent equivalent to Rs. 508,330,100 had not been utilized.

## 2.2 Incurring Liabilities and Commitments

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The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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a) The commitment valued at Rs. 97,594,204 incurred by the Ministry with a private institution in the year 2018 in regard to interior designing of the <i>Mehewara Piyasa</i> building, had not been disclosed in the financial statements. Nevertheless, a value of Rs. 21,066,583 for which the relevant service had not been certified to have been completed as at 31 December 2018, was shown as liabilities.	In terms of provisions of the State Accounts Circular, No. 255/2017, dated 27 April 2017, the liabilities to be settled by the Ministry should be accurately identified with values thereof determined, thereby showing them in the financial statements.	The commitment valued at Rs. 97,594,204 incurred by the Ministry with a private institution in the year 2018 in regard to interior designing of the <i>Mehewara Piyasa</i> building, should have been shown in the financial statements, but that sum had been shown as Rs. 21,066,583 by mistake.  The value of Rs. 21,066,583 had been shown as a liability as at 2018.12.31. However, as that value was a commitment, the relevant officers have been instructed to record such transactions as commitments in the future.
b) A liability valued at Rs. 3,977,000 incurred in the year 2017 had been settled through an additional provision obtained under a capital Object in the year 2018. However, that liability had not been disclosed in the Appropriation Account of the preceding year.	The liabilities to be settled by the Ministry should be accurately identified with values thereof determined, thereby showing them in the financial statements.	In order to settle a liability incurred in the year 2017 to the value of Rs. 3,977,000, payments had been made by utilizing the provision of the year 2018. That sum had not been brought to accounts in the year 2017 by mistake.

### 2.3 Deposit Balances

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The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
<p>-----</p> <p>The Office of the Commissioner for Workmen's Compensation had levied the employers during 2013-2018 and credited the monies to the Deposit Account, No. 6000/0000/00/0017/0026/000 for the sake of employees in distress or deceased. However, there existed a balance of Rs. 7,005,436 that had not been paid to the relevant beneficiaries.</p>	<p>-----</p> <p>Action should be taken to make the payments to the relevant parties.</p>	<p>-----</p> <p>The Labor Tribunals returns the verdict that compensation be paid once the beneficiaries of compensation prove their rights legally. Nevertheless, some of the beneficiaries do not take part in the test conducted by them for the disbursement of compensation, and legal documents too are not made available. As such, compensation could not be granted due to those reasons.</p>

### 3. Operating Review

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#### 3.1 Planning

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The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
<p>-----</p> <p>A provision amounting to Rs. 500 million had been made for the year under review in respect of rural development in Sabaragamuwa. However, until the subject - development of Sabaragamuwa, had been removed from the Ministry in May 2018, no expenditure whatsoever had been incurred on the objectives.</p>	<p>-----</p> <p>The Ministry should draw its attention on accurate preparation of plans relating to performance in terms of Public Finance Circular, No. 2014/01, dated 17 February 2014.</p>	<p>-----</p> <p>Even though a proposal for development plans had been prepared to the value of Rs. 6,094.92 million to be implemented during 2017-2020, no expenditure whatsoever had been incurred until that subject was removed from the Ministry in May 2018.</p>

### 3.2 Failure to Discharge Functions

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The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
----- Necessary action had not been taken even up to the end of the year under review on the files relating to 10 complaints received by the Office of the Compensation during 2016-2017 in regard to fatal and non-fatal accidents taken place while on duty.	----- The Office of the Commissioner for Workmen's Compensation should take further action on the complaints received promptly and efficiently.	----- Formal court proceedings should be followed as for paying compensation in terms of the Workmen's Compensation Ordinance. As such, a certain period of time is needed.

### 3.3 Uneconomic Transactions

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The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
----- Even though a video camera and accessories had been purchased for the Media Unit of the Ministry of Labor by incurring a sum of Rs. 1,625,781, the objectives expected from the purchase of the camera could not be achieved as an editing software compatible with the technology of the camera had not been provided.	----- As for all the expenses incurred by the Ministry, attention should be drawn on efficiency, productivity, and economy.	----- Due to poor performance of the said Unit, and non-receipt of required provision, the editing software could not be purchased thus far.

4. Good Governance

4.1 Rendering Services to the Public

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
<p>Action had not been taken by the Office of the Commissioner for Workmen's Compensation even up to the date of audit to settle 384 accounts valued at Rs. 9,963,455 that should have been released over a period of 01 – 25 years to the underage youths who had become matured.</p>	<p>Action should be taken to promptly release the funds to the underage youths who had become matured.</p>	<p>Many of those accounts had been opened in the years prior to 1980. The reasons such as, changes in the residential addresses, abandonment of addresses, owners of the account holders proceeding abroad, changes in addresses at the war-torn areas, and death of account holders, could not be resolved. The process of releasing funds has been expedited by establishing an information system since the year 2016.</p>

5. Human Resource Management

The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
<p>A Human Resource Development Plan had not been prepared for the year under review in terms of Section 2 of the Public Administration Circular, No. 02/2018, dated 24 January 2018.</p>	<p>A Human Resource Development Plan should be prepared in terms of provisions of the Circular.</p>	<p>Lack of provision for implementation of the Plan in the year 2018. As provision had been made in April 2019 to implement the said training Plan in the year 2019, it is stated that action will be taken to implement the training programme as planned in due course.</p>