

## **Head-221- Department of Labour**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Department of Labour for the year ended 31 December 2019 comprising the statement of financial positions at 31 December 2019 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 containing my comments and observations on the financial statements of the Department of Labour was issued to the Accounting Officers on 30 June 2020 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report relevant to the Department was issued to the Accounting Officer on 28 August 2020 in terms of Section 11 (2) of the National Audit Act No. 19 of 2018. 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 matters described in Paragraph 1.6 of this report, the accompanying financial statements prepared in accordance with the provisions in the State Accounts Circular No.271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Department of Labour as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 opinion.

#### **1.3 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements**

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The Chief Accounting Officer and the Accounting Officer are 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 Department 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.

In terms of Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer and the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department 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 Department'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 Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control 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 (1) (d) and Section 38 of National Audit Act, No. 19 of 2018.

- (a) The financial statements were consistent with the preceding year.
- (b) The recommendations made by my report with regard to the financial statements of the preceding year had been implemented.

**1.6 Comments on the Financial Statements**  
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**1.6.1 Statement of Financial Performance**  
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Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Non-revenue receipts of Rs.100,272 had been understated in the statement of financial performance.	Financial statements should be prepared under proper supervision and guidance.	This error has occurred due to a mistake in entering the information into the statement of financial performance.

**1.6.2 Cash Flow Statement**  
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Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Although the amount of Rs. 8,810,550 to be reimbursed from the Department of Elections was not an expenditure incurred on other expenditure head, it had been included in the Cash Flow Statement under operation activities.	Action should be taken to prepare financial statements in accordance with the State Accounts Circulars.	This error had occurred due to a mistake in entering the information into the Statement of Financial Performance and it is informed that necessary steps will be taken to prevent such errors in the years to come.

### 1.6.3 Advance Accounts Balances

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The advance receipts (credit) balance of Rs. 1,404,931 and advance payments of Rs. 1,389,181 for the year had been understated in the statement of financial performance	Financial statements should be prepared based on correct balances as per circular instructions.	Although the balance of receipts in the advance account amounted to Rs.105,472,314 according to the Treasury Statement, after correcting the erroneous debits and credits made by other Ministries and Departments during the year, the correct credit balance as per Advance 'B' Account of the Department has been shown in the financial statements.
(b) The difference in the aggregation of debit and credit notes of Advance B account and that difference according to Treasury Statements had been overstated by Rs.116,021 in the Imprest Adjustment Account.	Action should be taken to prepare financial statements in accordance with the State Accounts Circulars.	The failure to identify a one credit note made by another department according to the final Treasury printout has resulted in this discrepancy and steps have been taken to correct it subsequently.

### 1.6.4 Imprest Balance

Audit Observation	Recommendation	Comments of the Accounting Officer
According to the Treasury printouts, there was an unsettled advance balance of Rs. 8,810,550 but such advance balance had not been shown as per the financial statements.	Financial Statements should be prepared as accurately as possible in accordance with State Accounts Circulars and Generally Accepted Accounting Principles.	Action will be taken to correct the sub-imprest balance of Rs. 8,810,500 stated in the summary report only as the unsettled imprests and that balance has already been settled by the Elections Department. Therefore, the adjustments have been made in the relevant imprest account.

## 1.6.5 Certification to be made by the Accounting Officer

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Audit Observation	Recommendation	Comments of the Accounting Officer
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In terms of provisions in Section 38 of the National Audit Act No.38 of 2019, the Chief the Accounting Officer and the Accounting Officer shall ensure that an effective internal control system for the financial control exists in Department 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 and that such review makes in writing and submits a copy thereof to the Auditor General. Nevertheless, statements had not been furnished to audit that such reviews had been made.	Action should be taken in terms of provisions in Section 38 of the National Audit Act No.38 of 2019.	It has been informed that the certification will be given in accordance with the provisions specified in the National Audit Act No. 19 of 2018 in future.

## 2. Financial Review

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### 2.1 Expenditure Management

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Audit Observation	Recommendation	Comments of the Accounting Officer
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The savings out of the provisions related to 09Recurrent Objects during the year under review amounted to Rs.366,510,771and it ranged from 31 per cent to 95per cent as a percentage of the provisions. Further, the savings out of the provisions made for 06Capital Objects during the year under review amounted to Rs.208,629,686and it ranged from 29 per cent to 80 per cent as a percentage of provisions.	The Department should take action to prepare expenditure estimates on a basis as logical and accurate as possible in accordance with Financial Regulation50Monetary.	Restrictions on expenditure as per Budget Circular 04/2019, not obtaining buildings on rent, savings due to delay in shifting to the <i>MehewaraPiyasa</i> building, savings as per Budget Circular 05/2019, restrictions of procurements etc. had resulted in the above savings.

## 2.2 Incurring Liabilities and Commitments

The following observations are made

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The value liabilities related to 03 items not included in the financial statements but included in the liability register amounted to Rs. 2,181,270.	The Department should state in the financial statements the correct value of the liabilities to be settled at the end of each financial year.	The non-submission of certain liabilities for payments that had been identified and reported to us as liabilities by our Zonal Offices, District Offices, Sub Offices, District Factory Inspection Engineering Offices and other divisions of our Department has attributed to the differences.
(b) The value of liabilities which were not included in the record of liabilities but included in the statement of commitments and liabilities of the financial statement relating to 03 instances was Rs. 2,461,387.	-Do-	A correct answer had not been given.
(c) Although the Statement of Commitments and Liabilities in Note (iii) of Financial Statements as per paragraph 3.4 of State Accounts Circular No. 271/2019 should be reconciled with the Statement of Liabilities of the Treasury, according to the Treasury Liability Statement, liabilities amounting to Rs. 1,743,840 under Object No. 221-2-4-1-2509 had not been included in the financial statements and not been mentioned in the liability record as well.	- Do -	Under the No.195-02-03-13-2509,the Ministry of Development Strategies and International Trade has allocated Rs. 2,100,000 for our Department in respect of the E-ROC Project of the Employees Provident Fund Division for the year2019and a sum of Rs.1,980,077.32 including the expenditure of Rs. 356, 160 has been spent in the year 2019.
(d) In terms of Financial Regulation 94, no expenditure or commitment shall be incurred unless financial provision exists and the provision allocated therefor shall not be exceeded. Liabilities amounting to Rs. 1,011,620 had been incurred in	In incurring liabilities, the Department should be vigilant on the existing provisions and exceeding the provisions.	Our Department consists of96 divisions including 11 Zonal Offices, 40 District Offices, 18Sub Offices, 12 District Factory Inspection Engineering Offices and 15 other Divisions. Although there are a number of

respect of Object No. 221-2-4-1409 and the savings under that Object at the end of the year was Rs. 33,685. Accordingly, the value of liabilities which exceeded the amount of provision was Rs.944,185.

practical difficulties in controlling provisions in these 96 divisions, it is informed that this had to be done as it was essential to continue the day to day activities of all the above divisions.

### 2.3 Issuance and Settlement of Advances

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Audit Observation	Recommendation	Comments of the Accounting Officer
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The value of non-performing loan balances stood at Rs.5,127,856 as at 31 December 2019 and the value of loan balances which had not been recovered for more than 4 years was Rs. 1,789,294.	Expeditious action should be taken to recover current debt balances and all necessary steps should be taken to recover old debt balances.	Action will be taken to recover these loan balances by informing relevant officers and further, by informing the officer through the relevant Divisional Secretaries as well as the Grama Niladharis and the matters with respect to the debts which cannot be recovered have been referred to the Attorney General to recover them.

### 2.4 Deposit Balances

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Audit Observation	Recommendation	Comments of the Accounting Officer
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Although it had been planned to settle Rs. 600 million out of the Employees Provident Fund balance to be credited to the existing single contribution accounts in the General Deposit Account by 30 June 2019, only Rs. 189 million had been settled. As a result, settlement progress of the General Deposit Account for the year was only 31 percent. The balance in the General Deposit Account as at 31 December 2019 was Rs. 793 million, of which the total value of balances over five years amounted to Rs. 128 million.	Action should be taken to identify the existing balances in the General Deposit Account and credit them to the personal accounts without delay.	Due to the inability to make payments until the full amount is collected since the money recovered by court cases and collected in installments is included, the depositors' proceeding abroad, and the heirs have to appear due to the death of the money holders, these payments have been delayed and it is also informed that sufficient imprests were not received from the Treasury for making payments for the preceding years.

### 3. Operating Review

#### 3.1 Assets Management

The following observations are made

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Contrary to Section 02 of the Government Non-Financial Asset Management Circular No. 02/2017 dated 31 December 2017.issued by the Ministry of Finance, the Department had not taken over the registration of 02 vehicles used by the Department.	Action should be taken to register all the vehicles of the Department in the name of the Department as per the circular instructions.	The Van bearing No.60-6848 has been donated under the United Nations Development Program and the Double Cab No. 53-8847 has been donated by our Ministry to our Department since a period for nearly 25 years. Although we have the originals of the registration certificates of both the vehicles, we have not been able to find the relevant documents to attach them to the Department. Measures are being taken with regard to the possibility of taking over this vehicle to the Department.
(b) Although action should be taken to dispose of dilapidated and unusable vehicles owned by the Government institution as specified in Circular No. 02/2015 of the Ministry of Finance dated 01 July 2015, it was observed that 05 dilapidated vehicles belonging to the Department had not been disposed of even as at 19 September 2019.	Action should be taken to identify and dispose of unusable vehicles as condemned vehicles in accordance with the circular provisions.	It has been informed that the matter has been referred to the Assessment Committee for the disposal of dilapidated vehicles and further action will be taken after receiving the report of the committee.
(c) According to the information obtained by the Audit from the Department of Motor Traffic as at 31 December 2019, the 22 vehicles registered in the name of the Commissioner General of Labour were not in the possession of the Department at present. The details of the existence and use of those vehicles were not furnished to audit.	The Department is responsible for the vehicles registered in the name of the Department and therefore, necessary action should be taken by looking into this matter.	Since there are no any documents with our Department regarding these vehicles, information was sought from the Department of Motor Traffic and the Western Provincial Department of Motor Traffic and it was confirmed that no revenue licences have been issued over the last 15 years as these vehicles are not in use. Further, it is informed that all these



vehicles have been manufactured and registered before 1995 and enquiries were made from the Vocational Training Authority in order to ascertain whether these vehicles were taken away when the Manpower Division of this Department left as the Vocational Training Authority in 1995.

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| <p>(d) The foundation stone for the construction of the Ratnapura District Labor Office had been laid on 07 April 2017 on a land owned by the Urban Development Authority. However, construction of the building had been temporarily suspended due to issues regarding the land acquisition and constructions thereof had not been resumed even by 15 June 2020.</p>  | <p>Construction should be carried out after the acquisition of the land properly.</p>  | <p>Although Cabinet approval had been received, construction of the building was suspended due to land acquisition issues.</p>   |
| <p>(e) Although construction of the new Labor Office in Badulla district at an estimated cost of Rs.268,170,000 had commenced on a land belonging to the Sri Lanka Transport Board, the relevant land had not been duly acquired by the Department. An amount of Rs.54,791,204 had been paid to the Building Department for the construction of the building as at 31 December 2018 and the Building Department had handed over the construction work to the Contractor on 06 February 2019.</p> | <p>It may create problems to carry out constructions until the ownership of the land is clearly acquired and therefore, action should be taken to settle ownership of the land before commencing construction.</p> | <p>The Sri Lanka Transport Board had agreed to transfer the land to our Department and the approval of the Cabinet has also been received for that purpose. Therefore, an amount of Rs.54,791,203 was released to the Buildings Department as the initial provision required to commence constructions. It is informed that the construction work of the building is in progress at present and the acquisition of the said land is still being carried out.</p> |

### 3.2 Management Weaknesses

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 The following observations are made

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) As a result of causing landslide at Kumari Kanda, adjacent to the</p>	<p>Optimal decisions should be taken in</p>	<p>Relevant plans for the construction of the building have been submitted</p>

three-storied building in which the Kalutara District Labour Office, the Office of the Deputy Commissioner of Labour and the Office of the District Factory Inspection Engineer were maintained, a part of the office had to be relocated to a private building from 15 January 2018. Although the building had been constructed 09 years ago at a cost of Rs. 27 million, the building plan has not yet been approved. According to a report issued by the Building Research Organization, the main reason for the instability of the mountain was the irregular horizontal cut of about 150 meters made during the construction of the building. It was observed that as a result of this negligence in the design and construction of the building, an area of 4622.7 sq. Ft. of office space belonging to the Department had been idle for 02 years and Rs.3.3 million had been spent on building rent from 15 January 2018 to 26 November 2019 alone,

order to accomplish the expected role and efficiently.

to the Municipal Council, Kalutara. It is clear according to the bill of quantity prepared for the building that no cut of 150m has been made from the hill to acquire space for the construction of the building. Accordingly, it is not possible to identify clearly as to when the above cut in the mountain was made.

- (b) The balance of the Employees Provident Fund that had been recovered through the court proceedings and the Labour Offices and remained unsettled to the employees as at 31 December 2019 was Rs.398,465,065 and out of which the balance further remained unsettled as at 24 June 2020 was Rs. 332,429,832.35.

Money collected on behalf of the employees should be credited to the accounts of such employees without delay.

According to the Department records, the Employee Provident Fund balance in the General Deposit Account as at 31.12.2019 was Rs.398,465,065.84. Out of which Rs.66,035,233.49 has been settled and a balance of Rs.332,429,832.35 could be further observed by 24.06.2020.

#### 4. Good Governance

##### 4.1 Providing Services to the Public

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) There observed 07 occasions of delays in the submission of 'C' reports of 02 Labour Offices of the Colombo Districts to the Employees Provident Fund and remittance of Rs. 2,088,427 recovered by the Labour Offices to the Central Bank of Sri Lanka and the period of delay had ranged from 05 months to 03 years.	The Department should take action in an optimal manner to ensure that the money collected by the Labour Offices or the courts is promptly and timely received to the beneficiaries	There are also instances where it takes about two months to send the cheques paid to the court from the month of their deposit. The cheque thus received will be deposited in the General Deposit Account and the information obtained from the Court will be forwarded to the relevant District Labour offices in order to obtain the C Report or Requisition Forms. There are cases where delays occur in sending those details to this division due to various reasons and taking some time to rectify the deficiencies in the C reports obtained from the employer may also lead to the above delay.
(b) The credit reports and 'C' reports required to be sent to the Central Bank of Sri Lanka in order to deposit a sum of Rs. 630,520 to the contributory accounts that had been sent on 6 occasions to the Colombo East Labour Office by the court had not been submitted to the EPF Division even by 13 December 2019.	The Department should take steps to introduce an optimal system to ensure that the money collected by the Labor Offices is received by the beneficiaries in a timely manner as expeditiously as possible.	Cheques will be forwarded to the relevant parties after the C Reports or Requisition Forms are referred by the District Labor Offices applicable to the courts which remit the funds. Delays occur in sending C reports related to contributions of the EPF. At present, contributions and related C reports are forwarded to the Central Bank of Sri Lanka in the proportional accounting system that has been in place since August 2015.
(c) During the labour inspection, the Labour Officer should obtain the C Report, District 66 Report, Salary Register and Report sent to the institution to	It is observed that these delays and inconsistencies occur due to the lack of an information system that is	Mismatch of the information and their contradictions are a frequent occurrence in the process of crediting arrears to an employee's account. Action has been taken to

the effect that the Central Bank has accounted for the contributions. Due to the reasons such as inconsistency of that information with the database of the Central Bank of Sri Lanka, inconsistency of the calculated arrears with the C reports and salary register obtained from the institution, inconsistency of credit reports sent by the court with the calculated arrears and mismatch of the covering letters issued by the Labour Office with the arrears of contribution, there observed 19 instances where the money could not be credited to the employee's contribution accounts. In those instances, the duration in which that arrears remained unaccounted ranged from 1 year to 19 years.

compatible with the existing information system of the Central Bank. The management should draw attention on the need to maintain such an information system by the Department as well.

minimize the shortcomings by raising awareness on such shortcomings observed during the last few years at the training programs conducted last year. The Central Bank of Sri Lanka possesses details which are directly referred by the employers to the Central Bank of Sri Lanka. When it is stated that the information in the C Reports submitted by the Labour Offices does not match information of the Central Bank of Sri Lanka, there are also instances where the existing Code Numbers of the Central Bank of Sri Lanka Information System is incorrect. Accordingly, it is necessary to be very careful in fixing such shortcomings and therefore, it takes longer time for making some corrections.

- (d) Although the petitions / complaints should be examined within 14 days of their receipt as per paragraph 02 of Department Circular No. 06/2011, the investigation into "Mahanama Trade Center - Moratuwa" had been conducted four months after the receipt of the petition. The Legal Notice 01/02 according to the District 66 report had been sent after a delay of 06 months to pay Rs.824,600 for the above petition. Although this institution had been registered as an individual business on 25 July 2004, it was registered for the Employees Provident Fund in the year 2018 when the

The Head of the Department and the staff should take all possible steps to provide the service expected by the public from the Department efficiently and timely by expeditiously dealing with the public petitions and complaints.

As it is necessary to give priority to complaints received from various government agencies, including the Presidential Secretariat, Department of Labour etc., priority will be given for files of those institutions. Due to the existence of the vacancy in the Colombo South District Labor Office and commencement of releasing 30 per cent benefits by the Department, there has been some delay in this regard as this officer was very busy due to the large number of members registering B cards on a daily basis. Although institutes are inspected by labour officers, there are instances where it is difficult to register for the Employees Provident Fund due to the

petition was being investigated. This institution had been inspected by Labour Officers from time to time, whereas it had not been registered with the Employees Provident Fund for 14 years. Even though the employees of this institution had requested Employees Provident Fund / gratuity and compensation through petitions / complaints on several occasions since the year 2016, the Department of Labour had failed to provide relief for them despite lapse of more than 03 years.

concealment of employer information. Further, due to making complaints by the employees on their termination of employment after concealing information over a long period and the requests made by both parties for the dates contribute to lengthen the time taken for an inquiry. It is kindly informed that the vacancies of Labour Officers and Government Management Assistants remained at that time were also attributed to limit the opportunity for completing the investigations expeditiously.

## 5. Human Resource Management

The following observations are made

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) In order to inspect all Non-Governmental Organizations / Estates in Sri Lanka, 11 Zonal Offices, 40 District Labour Offices, 17 Sub Labour Offices and 10 District Factory Inspection Engineer Offices had been established under the Department of Labour. The number of Labour Officer posts and the number of supra grade posts approved for the Department of Labour to perform this function was 597 and 56 respectively. Of these, 56 supra grade posts have been approved, but those posts remained vacant even by the end of 2019 due to restructuring and 97 posts of Labour Officer had been vacant over a long period.</p>	<p>The Department should take steps to maintain the human resources in an optimal and efficient manner so as to implement the expected role of the Department more smoothly and efficiently.</p>	<p>Having prepared the scheme of recruitment of the Labour Officer (Special Grade), My letter No. DL / E / 3/58 dated 26 December 2019 has been forwarded to obtain the recommendation of the Director General of Establishments. Once the said scheme of recruitment is approved, action will be taken to make appointments to the post of Labour Officer (Special Grade).</p>

- (b) Although the 3 posts of Specialist Factory Engineers in the Department had fallen vacant and 4 out of 10 District Factory Inspector posts and 2 out of 14 Factory Inspection Engineer posts remained vacant, no action had been taken to fill these vacancies even by 31 December 2019.
- The Department should take steps to maintain the human resources in an optimal and efficient manner so as to implement the expected role of the Department more smoothly and efficiently.
- It has been stated that in addition to the posts in the Industrial Security Division indicated in the audit query, in respect of the post of Additional Commissioner General (Engineer) and the Commissioner of Labour, the Engineering Posts of this Division, attention will be necessarily drawn on the update of the staff done according to the PACIS Software introduced by the Ministry of Provincial Council and Local Government in filling vacancies of the island wide services and combined services. Accordingly, the database has been updated each month from May 2016. In addition, the Ministry of Public Administration has been informed regarding the vacancies in the Engineering Service by the letters dated 08.03.2018 and 07.02.2019.