

**Head- 221- Department of Labour**

**1. Financial Statements**

**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 2020 comprising of the statement of financial position as at 31 December 2020, statement of financial performance and cash flow statement for the year 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 statement of the Department Of Labour in terms of section 11(1) of the National Audit Act No. 19 of 2018 was issued to the Accounting Officer on 26 July 2021. Annual Detailed Management Audit Report related to the department, was issued to the accounting officer on 16th August 2021 in terms of section 11(2) of the Audit Act. This report is presented to the parliament in terms of section 10 of the National Audit Act No. 19 of 2018, which should be read in conjunction with the article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion except for the matters described in the Para 1.6 of this report the accompanying financial statements give true and faire view of the financial position of the Department as at 31 of December 2020 and its financial performance and its cash flow year ended in accordance with Generally Accepted Accounting Principles.

**1.2 Basis for the qualified opinion**

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My opinion is qualified based on the facts stated in paragraph 1.6 of the report.

My audit was conducted in accordance with the Sri Lanka Audit Standards (SLAuSs). My responsibility for financial statements is further elaborated in the section of auditor's responsibility. I believe that the audit evidences 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  
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the financial statements  
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The accounting officer is responsible to preparation of financial statements that give a true and fair view in accordance with the Generally Accepted Accounting Principles and provisions in section 38 of the National Audit Act No 19 of 2018 and for such an internal control as management determine is necessary to enable the preparation of financial statements free from material misstatement, whether due to fraud and error.

As per section 16(1) of the National Audit Act No. 19 of 2018, The Department is required to maintain proper books and records on 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 accounting officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic review to monitor the effectiveness of such system and accordingly make any alteration as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibility 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 and error, and to issue an Auditor General's report that includes my opinion. Reasonable assurance is 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. Misstatement can arise from fraud and error are considered material if individually or aggregate, it is materiality depend on the influence on economic decision made by the user base on these financial statements.

As a part of the audit in accordance with Sri Lanka Auditing Standards, I exercises professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to the those risk, 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 omission, misrepresentation, or the override of internal control.
- Obtaining 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 discourses made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the discourses and whether the financial statement represents 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 requirements

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I express the following matters in accordance with the section 6(1) (d) of the National Audit Act No. 19 of 2018.

- Whether the financial statements are consistent with the preceding year.
- 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 the financial Position

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Audit observation	Comments of the Accounting Officer	Recommendation
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<p>a. The balance of the Advance Account was over stated by RS. 16 4,793 in the statement of financial position than the last treasury statement and therefore the balance of the Advance account balance in the statement of the financial position and net assets was over stated by Rs.164, 793.</p>	<p>Comments had not been furnished</p>	<p>The accounts should be prepared in accordance with the guidelines issued by the Department of Public Accounts.</p>

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| <p>b. The value of assets acquired through purchases of assets as stated in the statement of non-financial assets was Rs.943,495,888 but it has been mentioned in the expenditure statement as Rs.943,520,888 because of that the value of the property ,plant and equipment mentioned in the statement of the financial position had been under stated by Rs.25,000.</p> | <p>Comments had not been furnished.</p> | <p>Action should be taken to accounting of non-financial assets as per public accounting circular guidelines.</p> |
| <p>c. According to the balance sheet, the expenditure on working progress in 03 expenditure codes in the year 2020 was Rs.940,730,168, but the balance of the work in progress mentioned as Rs.931,870,210 in the statement of non-financial assets, because of that the value of the working progress under stated by Rs.8,859,958.</p>                                  | <p>Comments had not been furnished.</p> | <p>Do</p>   |
| <p>d. According to the trial balance, the value of the acquisition of machinery and machinery equipment under 2 expenditure code was Rs.1,296,347 and that value was overstated as Rs.8,640,532, though the value of that expenses was mentioned in the statement of non-financial assets as Rs.9,936,879.</p>  | <p>Comments had not been furnished.</p> | <p>Do</p>   |

## 1.6.2 Statement of Financial Performance

<b>Audit observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
When Comparing the statement of financial performance and the Treasury Final Statement, advances receipt in the financial performance statement were understated by Rs. 857, 773, while payments of advances had been understated by Rs.693,030.	Comments had not been furnished.	It should be required to take action to accounting of non-financial assets and working progress as per Public Accounting Circular Guidelines.

## 1.6.3. Cash flow statement

### 1.6.3.1 Non-revenue receipts

The following deficiencies were observed in the accounting of non-revenue receipts related to financial statements.

<b>Audit observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
a. It had been over stated the non-revenue income as Rs.8,810,549,at the cash flow statement, due to recorded as Rs.854,602,392, according to the cash flow statement , though it has been recorded in the total of non-revenue income as Rs.845,791,843 according to the trial balance ,as at 31 <sup>st</sup> December 2020. The reason for this adjustment was, re-entering to the deposit account under other revenue receipts, even this amount was settled in the deposit account which was received from the office of Election Commissioner	This error has been occurred as the amount of Rs.8,810,549 were recorded under the non-revenue income which was released from the office of Election Commissioner.	It should be conducted systematic monitoring, when preparing financial statements.

#### 1.6.4 Advance Accounts balances

The following deficiencies are revealed when accounting the balances of advance account at the year end.

<b>Audit observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
a. Although the difference in the advance” B” account of the imprest adjustment account was stated as Rs.11,592,029, after adjusting the balance, the difference was become as Rs.11,448,604 and therefor the Rs.143,425 had been overstated in an adjustment account.	As pointed out, this has been occurred during the preparation of the imprest adjustment account due to errors in the statement of Financial performance.	Accounts should be prepared in accordance with the guidelines issued by the Department Of Public Accounts.

## 2. Financial Review

### 2.1 Expenditure Management

The following observations were made.

<b>Audit observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
a. Out of the total allocation of Rs.43,200,000 was allocated for 20 recurrent expenditure codes in the year under review, and the remaining balance was Rs16,274,745, it was 37.6 percent and range from 22 present to 100 percent of the allocation for each expenditure codes.	Due to the pandemic situation in covid-19, offices have been closed from time to time throughout the year and funds could not be spent as expected.	Action should be taken to prepare estimation for expenditure on a basis as logical and accurate as possible in accordance with the F. R 50

Out of the total allocation of Rs12, 050,000 for 05 capital expenditure codes, the balance amount was Rs3, 940,647 and it ranged from 25percent to 67percent of the allocation for each code.

- b. The net provision for Expenditure code No.221-2-4-1-1404 was Rs65, 300,000 and the balance was 51 percent or Rs.33, 269,461. The reason for the remaining the provision for lease rent was, some sections of the Employees Provident Fund did not move to the “Mehewara Piyasa” building during the last year. Action should be taken to prepare estimates for expenditure as logically and accurately as possible in accordance with the F. R. 50

## 2.2 Incurring Liabilities and Commitments

Following are the audit observations revealed in relation to liabilities and commitments

Audit observation -----	Comments of the Accounting Officer -----	Recommendation -----
a. It had not been recorded in the statements of liability accounts Rs.83, 004,986 according to the treasury statement.	These changes are due to non-submission for payment of certain liabilities which the liabilities identified and reported to us by our Zonal, District Offices, District Factory Inspection Engineering offices, Sub offices and other divisions.	The department should be represented in the Financial Statements the real value of liabilities which to be settled at the end of each financial year.
b. Although amounts of liabilities Rs.2,969,199 had been recorded in the financial statements, it had not been recorded in the Treasury.	Our department consists of 96 sections such as Zones, Districts, Sub Offices, District Factory Inspection Engineering Offices and other divisions. There are a number of practical difficulties in controlling provisions in these 96 areas. This difference can be perceived due to the fact that unidentified liabilities at the	Do

time of submission information to the treasury are reported on the date of preparing the Financial Statement.

- c. Liabilities amounting of Rs. 61,954. Which has been mentioned under 2 expenditure codes in the Financial Statement, had not been recorded in the liability register. This error has been occurred due to a defect in entering the information into the liability register. Do
- d. Liabilities, of Rs.2, 368, 236 for 06 expenditure codes mentioned under project No. 04 had been overpaid by Rs.643,485 in 2021.Furthermore liabilities of Rs.6,637,421 that should be mentioned under 3 expenditure codes had not been included in financial statements. The reason for that was not submitting for the payment of other liabilities mentioned in the financial statements. This amount has not been paid in cash, when preparing the accounts on accrual basis of Employee Provident Fund and this expenditure has to be paid by the accounts, prepared on cash basis of the department. Do
- e. According to section 05 of Public Accounts Circular No 255/ 2017 dated 27<sup>th</sup> April 2017, the construction of “Mehewara Piyasa” building in the year 2013 had not been completed by the year 2021 and the balance of the remaining commitments had not been stated in the Financial Statements as at 31<sup>st</sup> December 2020. Although allocations of Rs704, 900,000 had been made under expenditure code No221-1-2104, out of which Rs.66, 598,182 was remained and the value of the final bill to be paid was not even mentioned in a note in the relevant Liabilities Statement. Liabilities had not been included in the statement of commitment as the actual value to be paid could not be confirmed due to non-submission of the final bill. Do



### 2.3 Reconciliation Statement of Advanced Accounts to government officers

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The following are the audit observations revealed in this regard.

<b>Audit observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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a. The value of non-performing loan balance mentioned in advance "B" reconciliation statement of public officers as at 31st December 2020 was Rs 1,296,825 and those loan balances had not been recovered for more than 04 years.	Taking action according to the Public Finance Circular 01/2020 and F.R .133(6) (c) Relating to the officers who were transferred and the pension gratuity of the retired officers is currently being prepared. The cases are being conducting regarding the officers who were suspended of duty. And the loan balance has been notified in writing to be recovered even in installments but no action has been taken so far to pay those installments.	The action should be taken to recover areas without delay and to maintain proper credit records.
b. An outstanding Loan Balances of Rs.2,114,219 had not been received by the end of the year considering which could be recovered within 2 to 5 years period from the officers who have left the service, had been dismissed the service and terminated the service .	The action will be taken to recover the loan balances which are not more than 02 years and also not exceeding Rs.25000 according to the public finance circular NO:01/2020and F.R.113(6).The loan balances of the three officers are being recovered from the guarantors.	Do

## 2.4 Deposit balances

The following are the audit observations revealed regarding the deposit balances.

<b>Audit observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
It had not been taken action according to the Financial Regulation 571(2) and (3) regarding a balance of Rs.405,374,480 for exceeding 02 years. The balance of general deposit Accounts was Rs.862,823,135 according to the financial statement As at 31st December 2020.	The actions have been taken when possible for the deposits exceeding two years according to the F.R. 571, and also the relevant district offices will be taken action to credit the late payment deposits to the government revenue.	The actions should be taken to identify the existing balance in the general deposit account and to credit the personal account without delay.

## 2.5 Certifications to be done by the chief Accounting Officer/ Accounting Officer

<b>Audit observation</b>	<b>Comments Of the Accounting Officer</b>	<b>Recommendation</b>
a. In the terms of provisions in Section 38 of the National Audit Act No.19 of 2018, the Chief Accounting Officer and the Accounting Officer shall ensure that an effective internal 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 review had been made.	Comments had not been furnished.	It should be taken action in accordance with the provisions of section 38 of the National Audit Act No. 19 of 2018.

### 3 Operating Review

#### 3.1 Contract Administration

The following observations are made.

<b>Audit observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
a. The total estimated cost of Rs.120, 239,994 had been provided from August to 31 <sup>st</sup> December of the Year 2020, at the beginning of 08 construction works to the Department of Building.	In respect of large contracts, the releasing of money is made as specified in the procurement committee decision. The money has been released so far according to the request of the Department of Building, due to non-signing of a memorandum of understanding between the two parties. From this year, release of provisions has only been made to the Department of Buildings and the cheques will not be issued in future and only the release of provisions will be made.	It is the responsibility of Management to pay for construction contracts in accordance with the Procurement Guidelines, terms of ICTAD and the Financial Regulations.
b. During the period from the year 2013 to 2020 Rs.320, 106,499 had been paid to the Department of Buildings for 25 Constructions and improvement works of the Department Of Labor and the physical progress of those projects was between 90 percent and 100 percent up to the 31 March 2021. The balance remained from	The action will be taken to send a letter again to Director General of Building inquiring the actions taken regarding the balance of money. To get further information, after verifying the information under the Finance Division, have been submitted to the engineer of the Administration Division and Building Maintenance.	It is the responsibility of the relevant officer to pay, in accordance with the financial regulations and procurement guidelines and maintaining proper records, books etc., in that regard and reviewing the progress in making the relevant payments.

the amount provided was Rs.41, 519,249 or 13 percent. The action had not been taken by the Department to obtain the balance amount of money.

- c. it was agreed to complete the construction of the "Mehewara Piyasa" building in 36 months. According to the agreement reached which Sierra Joint Venture on October 03, 2013, but the cabinet decision dated 26<sup>th</sup> June 2019, No CP/19/1638/101/046-1, the action was taken to extend the period until 30 June 2019 under recover the late fees. However, the contract work had not been completed by 31 December 2020, and no action had taken to recover the late fee as per the agreement. Meanwhile, omission work which are omitted from the original approved estimate 39.3 percent or Rs.3099 million of the total contract values of Rs.7891 million and the 39.6 percent as additional work had been included in to the 46<sup>th</sup> payment
- The replies will be furnished after obtaining confirmation from the Department of Building
- The action should be taken to recover the late fees as per the agreement. It has to be taken actions to properly and systematically preparing building estimates, and to make arrangements to make Interim Payment before the due date.

certificate. The comparison sheet required to identify the items had not been furnished to the Audit. In addition, a late payment of Rs.21,772,797(including VAT) was made to Sierra Joint Venture on 31<sup>st</sup> December 2020 for 13 Interim Payment Certificates (IPC).

### 3.2 Procurements

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 The following observations are made.

Audit observation -----	Comments of the Accounting Officer -----	Recommendation -----
a. The progress of the procurement plan for the year 2020 has not been reviewed as at 31 <sup>st</sup> December 2020 and an amount of Rs.20,618,992 has been spent to perform the tasks which were not included in the procurement plan during the year.	This was due to the inability in proper implementing of the procurement plan because of the Corona pandemic in 2020. As the work carried out outside the procurement plan was an essential work requested by the relevant District Offices.	It should be performed to achieve the expected objective during the year and it is the responsibility of the management to review the progress.
b. The estimates of Rs.135, 300,000 for the installation of dividing lines from the 12 <sup>th</sup> floor to the 16 <sup>th</sup> floor of the “Mehewara Piyasa” building had not been approved by the secretary to the	Specific reply had not been furnished.	It is the responsibility of the management to make payments in accordance with the procurement guidelines, ICTAD terms and Financial Regulations when paying for construction contracts.

Ministry and the procurement committee has given the approval to the Building Department to carry out this work without obtaining the recommendations of the Technical Committee, the total estimated cost of Rs.135,300,000 had been paid in full to the Department of Buildings, contrary to paragraph 5.4.4(i) of the Procurement Guidelines and the work had not commenced under the contract by month of March 2021.

### 3.3 Asset Management

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The following observations are made.

<b>Audit observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>a. The 03 buildings where the labour offices of the Department of Labour were located remained idle for a period of 1to9 years due to the relocation of these offices to new buildings. It has not taken actions for assess the value of the 4 district offices</p>	<p>Necessary action is being taken to convert old labour office building in Hambanthota into a circuit Bangalore. Ratnapura district factory inspector engineers office has been established in the Avissawalla labour office building. The old labor office building in Kllinochchiya will be used for the storage tasks. Necessary steps are being taken</p>	<p>Action should be taken to utilize the government buildings with maximum efficiency. Action should be taken to assess the buildings which are not assessed by qualified assessors.</p>

and the Factory to assess the value of the labor Inspection Engineering offices belonging to the Office of Kurunagala Department of Labour district at the end of the reviewed year.

**4 Human Resource Management**  
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<b>Audit observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>Although the approved carder was 3138, the actual carder was 25 70 on 31st December 2020 and there were 568 vacancies, it has been mentioned that the actual carder was 2,651 and the number of vacancies were 487 on that day as at 30.04.2021, according to the reply of the commissioner of the Department of Labour.</p>	<p>It has been taken action to fill the vacancies as at 30 April 2021.</p>	<p>The department should take action to maintain the human resources in optimal and efficient manner so that the expected role of the department can be implemented more efficiently.</p>