National Institute of Occupational Safety and Health - 2020

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Institute of Occupational Safety and Health for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the institute as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

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

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 qualified opinion.

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

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 Sub 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 Responsibility for the Audit of the Financial Statements

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 statements 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 institute 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

	Audit Observation	Management Comment	Recommendation
(a)	In terms of Sri Lanka Public Sector Accounting standard 7, the useful life of fixed assets had not been annually reviewed. As such, fixed assets costing Rs.17,387,806 fully depreciated as at the end of the year under review, were still being used. However, action in terms of Sri Lanka Public Sector Accounting Standard 03, had not been taken to revise the estimated error occurred.	It was identified in 2020 but could not be carried out due to the prevailing Covid-19 pandemic. Necessary actions have already been taken to dispose of the assets to be disposed of during the year 2021 and to recalculate other usable assets.	In terms of the standard, useful life of the fixed assets should be reviewed annually and the depreciable amount should be determined.

1.5.2 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Investment interest income receivable had been understated in accounts of Rs.832,890 for the year. The surplus for the year and the interest income receivable were understated by that amount in the financial statements.	The accountant was instructed to correct the omissions in the calculation by 2021 as an adjustment to the prior year.	Interest should be calculated taking into the agreed interest rates and the correct period
(b)	Although the institute had purchased and used a van in 2018 for Rs. 9,700,000 had not depreciated annually. Furthermore, the depreciation rate for vehicles was not disclosed in the notes. The cost of the vehicle was not included in the institute's fixed assets register.	I agree with the observation and confirm that the error that occurred in maintaining the fixed asset register in the excel sheet by 2020 will not recur in the future. It has been instructed to record the depreciation adjustment of the	That fixed assets should be purchased, depreciated, disclosed in accordance with the standard.

		van for the year 2020 under the prior year adjustment in future.	
(c)	Although the annual depreciation has been deducted from the asset account by Rs.165,000 in respect of medical equipment valued at Rs. 1,650,000 purchased on a donation was not included as an expense in the financial performance statement. Furthermore, annually amortized donations amount equal to that depreciation value had not been included in the financial performance statement as deferred income.	Accounts for the year 2018 were revised and submitted at the time of purchase of this equipment. I request you to give a clear recommendation on how to keep account of the depreciation of this asset, confirming the accuracy of the accounting as you have suggested.	Accounts should be kept in accordance with the Sri Lanka Public Sector Accounting Standards.
(d)	When preparing the cash flow statement, the capital grant of Rs. 1,040,449 received from the Treasury for the year 2020 had not been mentioned as cash received under the financial activities, Cash received for Investment interest income of Rs.11,583,055 and employee loan interest income of Rs.60,104 relevant cash receipts had not been adjusted properly. Cash received for disposal of goods of Rs.51,000 had not been taken to the cash flow statement and prior year adjustments of Rs.456,020 had been taken to the cash flow statement. Due to this it was observed that cash flow statement was not prepared properly.	Advised to take proper care preparing the cash flow statement. Rs. 51,000 is an income from the sale of scrap materials and is not an investment. Interest income generated from investment activities amount of Rs. 456,020 was taken to the cash flow statement as prior year adjustment by comparing to the prior year.	Cash flow statements should be prepared in accordance with Accounting Standards No. 02.
(e)	The institution had not formulated a capital grant accounting policy and the capital grants made by the Treasury were first accounted for as Treasury grants and then only the grants received in previous years were deposited in the accumulated fund as the Capital Grant Reimbursements. Therefore, instead of the total amount of Government Capital Grants, only the Capital Grants received in the relevant year were shown in the financial statements. Accordingly, the amount stated in the financial statement as capital grant for the year under review is only Rs. 1,040,449.	All accounting activities of the institute are accounted for through the Quick Book computer software and are presented under separate headings in the financial statements submitted in the capital expenditure sheet (Expenditure Excel Sheet)for the year 2019, but the capital gains are automatically added to the accumulated fund by the accounting system and those adjustments are made in the submission of account statements. Back in the following year, note No. 4 presents in detail how the accumulated surplus was formed.	Capital Grant Accounting should formulate an accounting policy and disclose in the financial statements and keep accounts accordingly.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management comment	Recommendation
(a) Sub-section 3 (1) (c) of the National Institutes of Occupational Safety and Health Act No. 38 of 2009	Although the institute was supposed to establish national standards in the field of occupational safety and health, those standards were not established until April 30, 2021.	In addition to the Factories Ordinance, all arrangements have been made to bring in a new Act as the Occupational Safety, Health and Welfare Act. Following the passage of the new Act, action will be taken to establish the relevant standards.	Acting in accordance with Act No. 38 of 2009.
(b) Section 16: 2 of the National Audit Act No. 19 of 2018	The Chief Accounting Officer was required to submit the Annual Financial Statements, along with the Annual Performance Reports, to the Auditor General, but no Performance Report was submitted with the Financial Statements.	In terms of Section 16.2, the performance reports of the institute will be submitted along with the Accounts Statements separately in future years.	Action should be taken to submit a performance report along with the financial statements.

1.7 Cash Management

Audit Observation	Management Comment	Recommendation
(a) Due to failure to identify the bank balance required to maintain the operations of the institution successfully and to invest the surplus money effectively, At the end of each month of the year under review, amounts ranging from Rs. 4.6 million to Rs. 19.3 million remained in the current account. As a result, the fund had lost interest income that could have been earned.	Rs.5.9 million had to be kept in reserve as it was expected to purchase medical equipment and computers (laptops) in 2020. Although computers (laptop) have been purchased so far, it has not been possible to deposit money in investments due to delays in importing the equipment due to the occasional covid-19 pandemic. Therefore institute has not lost any interest income that could have earned as stated in this audit observation. therefore not agree in this regard. However, I would like to inform you that the money will be invested after a proper assessment of the cash balance of the institution and a formal appraisal.	The bank balance should be identified and the excess money should be invested in a short-term savings scheme.

2. Financial Review

2.1 Financial Result

The operating result of the year under review had been a surplus of Rs.11,057,350 and the corresponding surplus in the preceding year amounted to Rs.28,130,642.Accordingly, a deterioration of Rs.17,073,292 was observed in the financial result. The Covid – 19 pandemic was the main cause of this deterioration.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	In the Annual Board of Survey Report for the year 2019, only the balance was mentioned according to the ledger of all the items and the actual balance was not mentioned. Deficits and surpluses were not calculated and the accuracy of the annual inventory report could not be verified.	I agree that the actual balance sheet for the 2019 Board of Survey was not recorded and stated that the committee members had stated that there was no excess or deficiency prior to those signatures (on the required page). The Board of Survey Committee as well as all the responsible officials were instructed to re-examine the relevant reports before sending them to the institution in future.	Action should be taken to conduct surveys in accordance with Form 66 as per F.R 757

3.2 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The stationery cost of the institution in 2019 was Rs. 427,308. That expenditure in the year 2020 was Rs. 1,223,216 and the remaining stock of stocks as on 31st December 2020 had not been calculated and mentioned in the financial statements under the review year, the institute's operations were less than in 2019, but the audit did not reveal the reasons for the increase in stationery expenditure by Rs.795,908. That's 186 percent.	Stationery stock value Rs. 644,856 which was the stock in the beginning of the year 2019 Obtained for the year 2020 and the stationery expenditure for the year 2020 was Rs.578,359. The stationery purchased in the year 2020 is still in use in the year 2021 and the expenditure incurred for the year 2021 is Rs.68,694. Advised to maintain schedules properly.	The stationery inventory should be maintained so that the expenditure and balance stock for the year can be calculated in such a way as to indicate the revenue for the year accurately and if there is a balance stock, it should be shown in the financial statements.