

National Human Resource Development Council of Sri Lanka - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of National Human Resource Development Council of Sri Lanka for the year ended 31 December 2020 comprising the statement of financial position at 31 December 2020 and the statement of financial performance for the year then ended, statement of changes in net assets and the 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 the 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 Council 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 Council'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 Council or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Council 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 Council.

1.4 Responsibility of Auditor on audit of 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 skepticism 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 Council'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 National Human Resource Development Council 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 Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law, or other general or special directions issued by the Governing Body of the Council;
- Whether the Council has performed according to its powers, functions and duties; and
- Whether the resources of the Council 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 Internal Control over the Preparation of Financial Statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
<p>-----</p> <p>Although it was stated in the Note 9 of the Accounting Policy that grants received for capital expenditure will be shown under Equity and will be recognized as deferred income during the useful life time of the asset, capital grants received during the year under review amounted to Rs. 1,650,050 had been identified as income in the financial performance statement instead of identified under Equity in the financial position statement.</p>	<p>-----</p> <p>Agreed. Instruction was given to state accurately in the year 2021 accounts.</p>	<p>-----</p> <p>Accounting should be kept correctly.</p>

Also, due to equal amount of depreciation relevant to the year under review amounted to Rs. 4,624,227 had not been accounted under differed income in the financial performance statement, the deficit for the year was over stated by Rs. 2,974,177 and capital grant was under stated by Rs. 1,650,050.

1.5.3 Accounting Deficiencies

Audit Observation

Comments of the Recommendation Management

According to the calculations made by the audit, the cost of the property, plant and equipment submitted with the financial statements for the year under review was under stated by Rs. 2,064,612. Also, the depreciation for the year was under stated by Rs. 202,801 and the cumulative depreciation was over stated by Rs. 279,177 in the financial statements.

Agreed. It was also advised to come to a decision in consultation with the Audit Division to correct the cost in the year 2021.

Depreciation for the year should be calculated accurately.

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

Reference to Laws, Rules and Regulations

Non-compliance

Comments of the Recommendation Management

Public Finance
Circular No. 03/2015
dated 14 July 2015

(i) Paragraph
371 (2) (b)

Although advances up to Rs. 100,000 can be given for ad-hoc imprest, contrary to that, in one occasion an advance of Rs. Rs.112,000 had been given.

This was taken by the new Chairman appointed in 2019 to settle the attendance allowances for 19 members, Rs. 6000.00 each, of the first Board of Governors meeting.

Limits should be complied with in advance payments as per the circular.

- (ii) 371 (2) (d) Although action should be taken to settle the advances immediately upon completion of the relevant work, contrary to that, the advance were settled with a delay of 4 months to 6 months. Instruction was given to settle the advances without delay in the future. The advances should be settled as per the circular.

2. Financial Review

2.1 Financial Result

The operating result for the year under review had been a deficit of Rs. 5,743,322 as compared with the corresponding deficit of Rs. 1,852,255 for the preceding year, thus a deterioration of Rs.3,891,067 was observed in the financial result. Decrease in government grants had mainly attributed for this deterioration.

3. Operational Review

3.1 Operational Inefficiencies

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The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Although the primary function and task were to formulate national human resource development policies, periodically review and advise the Minister and the government on human resource development as per the Human Resource Development Act No. 18 of 1997, a human resource development policy had not been formulated.	Nominations have been obtained for the appointment of expert committees to update the policies formulated by the Department of Employment in 2013 in accordance with the 'Prosperity Vision' policy. There was also a delay in the calling of committees on the ongoing corona epidemic. Once that situation is resolved, the committees are convened and instructed to take action to formulate that policy.	Action should be taken in accordance with the provisions of the Act.
(b) According to Section 16 (2) e of the Act, a database containing information on various areas related to human resource	Due to we do not have a competent enough officer to create this database, we have made discussions with ICTA and the Department of Manpower	Action should be taken in accordance with the provisions of the Act.

development is required to be maintained, but a database had not been set up even 23 years after the council was established.

and Employment but we have not received a proper response. The institute will be able to perform its functions without any delay after making future recruitments for existing vacancies in the organization and once the situation in the country returns to normal.

- (c) Although the institution was empowered to recruit expert teams for the performance of the functions of the Council in terms of Paragraph E and F of Sections 16 (2) (1) of the Act, action had not been taken accordingly from 1997 to 2020. It was observed that this had a direct impact on the performance of the institution and the exercise of its powers.
- As a first step towards 2020, applications have been invited from those who have expressed interest in forming a pool of experts. It is planned to retrieve the information through a letter of consent from the selected experts and set up the pool and publish it in the website.
- Action should be taken in accordance with the provisions of the Act.