

National Human Resource Development Council of Sri Lanka - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Human Resource Development Council of Sri Lanka for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 reported 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 2021, 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 Council'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. 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 Deficiencies

The following is observed.

Audit Observation	Comments of the Management	Recommendation
Although the depreciation on the Motor Vehicles purchased under government capital grants which were fully depreciated and then revalued in the year 2016 was identified in the financial statements correctly, the profit for the year of Rs.1,823,306 and the accumulated surplus of Rs. 12,376,694 were over stated in the financial statements, resulting due to the recognition of deferred income equal to the recognized depreciation amount.	Instructions were given to make corrections in the year 2022.	Since the depreciation expense of a fully depreciated asset after its revaluation, cannot be recognized as deferred income, financial statements should be prepared accurately.

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

 The following is observed.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
Public Administration Circular No. 30/2016	Records on the fuel usage since the last fuel consumption test date and during the last month were not prepared, according to the Section 3.3 of the circular.	Agree for future compliance with circular.	Should be complied with circular.

2. Financial Review

2.1 Financial Result

 The operating result of the year under review amounted to an surplus of Rs. 1,193,977 and the corresponding deficit in the preceding year amounted to Rs. 5,743,332. Thus an improvement amounting to Rs.6,937,309 of the financial result was observed. The reasons for the improvement are increase in deferred income of Rs.2,992,446 and decrease in depreciation expense by Rs.1,631,782.

3. Operational Review

3.1 Operational Inefficiencies

 The followings are observed.

Audit Observation	Comments of the Management	Recommendation
(a) As per the Human Resource Development Act No. 18 of 1997, the primary function and task of the Council is to formulate a National Human Resource Development Policy and to revise it periodically, advise the Minister and the government on human resource development, a National Human Resource Development Policy had not	According to the subject area covered under the new vision of the government, it is planned to compile a national human resource development policy that is in line with the "Vision of Prosperity". Accordingly, our council has already appointed an advisory committee and a working committee consisting of experts in the relevant fields and through this committee we hope to prepare the human resource	The need to maintain this institution for 23 years without fulfilling even the most basic purpose as per the provisions of the Act was problematic in the audit.

been formulated although 23 years have passed since the establishment of the Council. development policy. So far, our council has prepared a draft plan covering all relevant aspects.

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| (b) | According to Section 16(2) f of the Act, a database containing information on various areas related to human resource development is required to be maintained, it had not been complied accordingly. | As there is no competent enough officer to create this database, necessary arrangements are being made to get the service of a consultant to fulfill the requirement. | The need to maintain this institution for 23 years without fulfilling even the most basic purpose as per the provisions of the Act was problematic in the audit. |
| (c) | It was observed that although the institution was empowered to recruit expert teams to conduct the functions and tasks of the Council in terms of the paragraph (e) and (f) of Sections 16 (2) (1) of the Act, actions had not been taken accordingly from 1997 to 2021, resulting a direct impact on the performance of the council and execution of its powers. | Consent has been obtained from the currently selected experts for the establishment of the expert group and the pool of experts is to be presented in the next Governing Board meeting. After obtaining the approval of the Governing Board, the service of the expert team is to be taken for future projects. | The need to maintain this institution for 23 years without fulfilling even the most basic purpose as per the provisions of the Act was problematic in the audit. |

3.2 Utilization of resources of other organizations

The following is observed.

Audit Observation	Comments of the Management	Recommendation
Actions were not taken to take over the cab used by the Council since February 2016, which is owned by the Ministry of Economic Policy and Planning.	Despite a written request to the Ministry, no transfer of rights was made.	As vehicle repairs and other expenses are being incurred, arrangements should be made to take possession of the vehicle.