

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the National Institute of Labour Studies for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 reported to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Institute 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 Opinion

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 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 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 Audit Scope

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 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.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) <u>National Institute of Labour Studies Act No.12 of 2010</u>			
(i) Subsections 3 (a)	Formal actions taken to ensure the welfare of employees to make them active participants in the development process were not observed.	By providing understanding of labour law, industrial relations, human resource development, procurement, Establishments code and Financial regulations to make employees active participants in the development process. Short-term and long-term courses were conducted for the purposes of capacity building on subjects directly related to their duties and informed about how they can contribute to the development process. Efforts have also been made to develop the awareness of both employers and employees about labour law and industrial relations.	Actions should be taken to achieve the objectives mentioned in the Act.
(ii) Subsection 3 (c)	It was observed that no survey done related to the Institute of Labour Studies in the year 2021.	Working with the University of Colombo Human Resource Development Institute and the students studying the Diploma Course in Labour Law and Industrial Relations and the Advanced National Certificate Course in Labour Law and Industrial Relations have prepared and submitted test papers. Actions will be taken to expand these research activities in the future.	Actions should be taken to achieve the objectives mentioned in the Act.

(iii) Subsection 3 (d)	Although the establishment and maintenance of library and information services is one of the main objectives of the institution, the institution had not implemented such a library and information service until 31 March 2021.	A library was installed from the year 2007 to November 2019 and arrangements have been made to install the library from the second quarter of the year 2022 after the installation and modernization of the office of the General Secretary of Labour in Narahenpita. Work has been initiated to create an online electronic library.	Actions should be taken to achieve the objectives mentioned in the Act.
(iv) Subsection 3 (e)	Although there should be close cooperation between national and foreign institutions, associations and societies with similar objectives. Such programs are not formally implemented.	While discussions have been held to update the Memorandum of Understanding with Vivigiri National Labour Organization of India, In the future, after receiving observations from the Attorney General's Department, Arrangements will be made to enter into the agreement subject to necessary Cabinet approval. 03 rounds of negotiations to enter into a collaboration with the International Training Center affiliated to the International Labour Organization have already been held and discussions have been concluded regarding the possibility of obtaining resource contribution from that institution for the diploma course on labour laws and industrial relations currently being run.	Actions should be taken to achieve the objectives mentioned in the Act.
(v) Subsection 3 (f)	The Institute had not conducted courses and awarded certificates and diplomas (except Tertiary and Professional Education Commission) even though Institute had negotiated with aided universities and similar bodies.	Preliminary discussions have been held for a research with the Human Resources Development Institute of Colombo University with the aim of studying the legal regulations related to manpower employment agencies and employers and identifying their existing gaps and identifying opportunities for its development. Initial discussions have been held with the Sri Lanka Evaluation	Actions should be taken to achieve the objectives mentioned in the Act.

Association to examine the feasibility of starting a diploma course in supervision and Discussions have been held with the Department of Official Languages regarding the possibility of starting a certificate course for Tamil language proficiency of government officials.

Necessary action has already been taken in consultation with the Tertiary and Vocational Education Commission on the application of the National Vocational Qualification (NVQ).

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| (vi) Subsection 4
(g) | To enter into agreements with other institutions located in Sri Lanka or abroad for the purpose of exchange and training, research and consultancy services and generally for furthering their common objectives with other institutions with objectives wholly or partially similar to the objectives of the Institute. But that was not done. | While discussions have been held to update the Memorandum of Understanding with Vivigiri National Labour Organization of India, In the future, the agreement will be reached after obtaining the necessary approval from the Cabinet of Ministers. | Actions should be taken to achieve the objectives mentioned in the Act. |
| (vii) Subsection
16(1) | Although the Board may have appointed a certain number of technical committees required for the performance of duties under this Act, such committees have not been appointed accordingly. | Although such provisions have been made in the Act regarding the matters to be done with the future opportunities and future expansion of the institution, the Board has not appointed technical committees as no such need has arisen so far. The appointment of technical committees will be done in the future in accordance with these sections of the Act on the advice given by the Governing Body when there is sufficient financial capacity to expand the activities of the institution in the future. | Actions should be taken to achieve the objectives mentioned in the Act. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 13,109,428 and the corresponding deficit in the preceding year amounted to Rs. 7,426,319. Therefore an improvement amounting to Rs. 20,535,747 of the financial result was observed. The reasons for the improvement are mainly influenced by the increase in income from Rs.15,932,955 in the year 2020 to Rs.28,364,579 in the year under review as the institution conducted courses and programs online due to the Covid-19 epidemic situation.

2.2 Trend Analysis of major Income and Expenditure items

Major Income and Expenditure items	2021 (Rs.)	2020 (Rs.)	Difference (Rs.)	Percent of Difference (%)
Revenue	28,364,579	15,932,955	12,431,624	78.02
Government Grant	10,000,000	6,100,000	3,900,000	63.93
Conducting Programs	4,186,055	3,173,959	1,012,096	31.89
Other Operating Expenditure	21,069,096	26,285,315	(5,216,219)	(19.84)

Compared to the previous year, during the year under review, it was observed that there was a growth of 74 percent in revenue and government grants and 32 percent in capital expenditure.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) A van donated by the United Nations Development Program to the Employee Education Division of the Department of Labour was handed over to the Institute in 2008 when the Employee Education Division was established separately from the Department of Labour as the National Institute of Labour Studies, but this vehicle was not formally handed over to the institute. The Motor Transport Department had confirmed that a	After reporting to the Colombo Fraud Investigation Division, the Commissioner General of Motor Transport was informed and requested again to provide the original file and transfer file, but it has not been forwarded until now. will inquire further from them and report the information. According to the letter dated 04 December 2021 from the Fraud Investigation Division received by the institution on 17 December 2021, it has been informed that the court order has	Necessary steps should be taken to expedite these investigations.

private owner had a van with the same registration number as the vehicle, which had been taken off the road due to a mechanical fault. Thus, the agency had complained to the Colombo Fraud Investigation Bureau on 05 January 2020, and the said bureau, through a court order, had informed the Motor Transport Commissioner General to submit the original file and transfer file related to the said vehicle to the bureau, but the files were not provided even on 31 December 2021. Due to this, the investigations were stopped.

been handed over to the Motor Vehicle Department to obtain the original file and the transfer file in this regard. Further inform that the progress of this investigation will be informed in the near future.

(b) The approved cadre of the institute is 45 and the actual staff as on 31 December 2021 is 14. That is, 31 percent of the approved cadre. Accordingly, the institution was running with a staff shortage of 69 percent and 06 out of 09 senior level posts were vacant. No permanent officer was recruited for the post of Director General. According to the staff information of Administration Division, there were 04 Management Assistant posts in 2017 and it had reduced to 01 post by 2022. It was observed that duties are not being performed properly by not recruiting officers for the posts of Program Officer and Assistant Director of the Examination Division.

As the financial situation of the institution was challenged due to the Covid pandemic, it was a wasteful expenditure to hire all the approved staff, so the recruitment was evaluated to fill only the vacancies of the essential posts according to a proper evaluation. It was confirmed that if all posts are recruited, the government will have to bear unnecessary expenses.

Action should be taken to recruit the necessary staff to fulfill the objectives of the Institute.

Applications have been invited for the recruitment of 02 Assistant Director (Administration, Research) posts, 01 Program Officer posts, 01 Financial Officer posts and 01 Management Assistant posts from the approved staff of the institute and the rest of the recruitment work is to be done in the near future. But as per National Budget Circular No. 03/2022, recruitment has been temporarily suspended.

(c) The institute conducts training and education activities through 03 main subjects in order to create an effective workforce that contributes to social -economic development while maintaining

Our institution has made arrangements to implement training programs with innovation and diversification whenever possible. The trainees will hope that the courses will be conducted at a more

Effective training programs should be implemented to achieve the objectives of the Institute.

good labour relations. But in the analysis of the training programs conducted in the last 5 years, a training program plan of a uniform nature was prepared and no innovation or diversification was observed during the audit. That is, the attention of the training department was not focused on introducing new courses, revising the courses in accordance with the needs of the candidates and conducting training programs in a new way.

professional level and in accordance with their service needs in accordance with the future professional opportunities and that the programs and training courses will be conducted by resource persons and lecturers who are experienced and equipped with good practice and knowledge of the subject matter. If they do not receive such benefits, they will not participate in the courses and programs and workshops conducted by our institution.

While our institution is working hard to address these actions, in the midst of existing challenges, our institutions have already taken about 8 different actions to create innovation in courses and programs.

3.2 Operational Inefficiencies

Audit Issue

Management Comment

Recommendation

(a) The examination division conducts examinations for staff recruitment, efficiency bar and evaluation and service promotion as per the request of public sector corporations, statutory bodies and private sector bodies on the basis of corporate requirements. But it was observed during the audit that preparation of question papers according to the relevant subjects and evaluation of answer sheets is not done by a board but by a single person and no supervision is done by another person. Also, in the year 2021, the National Institute of Labour Studies had conducted 6 examinations in two institutes related to the Ministry of Labour and the problems regarding the independence of conducting the examinations continued to arise.

02 papers were presented and approved in the governing board meeting held on 02 February 2021, introducing methods for selecting the resource pool and streamlining payment activities related to the examination section. Through this, the activities of the examination department were aimed at streamlining and providing quality service to external institutions.

Our institution has recognized the need to take all possible actions to prevent examination malpractice, adopt accepted safeguards and protect confidentiality, and further action is a must-do activity. In this regard, the attention of the Board of Governors has been drawn and further work will be done based on the decisions taken there. Even though a suitable person for the post of Director (Training and Development) could not be recruited yet, the activities related to the

Arrangements should be made to conduct the examinations in a formal manner according to the examination rules using accepted security systems.

examinations conducted so far were conducted under the direct supervision and observation of the Director General.

Although the National Institute of Labour Studies is under the Ministry of Labour, it is an independent institution. Accordingly, our institution conducts the examinations of the institutions affiliated to the Ministry of Labour, but actions have been taken to protect the confidentiality of the examinations and as the examinations are conducted in a manner that preserves the utmost trust and confidentiality, I wish to inform that no problems have arisen in the examinations conducted so far and they have been conducted in a professional manner.

(b) A Research, Publication and Project Division was established in July 2020 and only an Acting Assistant Director was assigned to the Division. As on 10 April 2022, no other staff had been assigned or recruited. Accordingly, the achievement of the desired objectives of the establishment of this sector was very slow.

At present, the limited human and financial resources available to the Institute are being taken into account and efforts are being made to make maximum use of the existing human resources. Therefore, the Institute maintains a balance between being financially stable and increasing human resources. Further, approval has been obtained through the 362 ruling paper submitted to the 47th Governing Board to carry out necessary recruitment activities for research, publication and project sectors. Accordingly, arrangements have been made to recruit qualified officers for those positions in the future when the epidemic situation returns to normal and the institution's financial condition stabilizes.

Approved cadre should be recruited to fulfill the objectives of the Institute.