

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 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, 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 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 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.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
During the year under review, the purchase of property, plant and equipment worth Rs.20,458,790 had been shown in the financial statements but had not been included in the fixed assets register as per Sri Lanka Public Sector Accounting Standard 7.	It was observed that the relevant officer in charge has omitted to record Rs.6,260,000 of medical equipment and Rs.598,790 computer equipment in the fixed assets register as Purchase of the year 2021. instructions were given to update the register and since there is a separate fixed asset register for motor vehicles, the subject officer confirmed that the relevant Rs.13,600,000 value has been recorded and updated in the fixed asset register.	Should be followed Sri Lanka Public Sector Accounting Standards

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) The net cash flow generated from operating activities was Rs.11,346,381 over stated in the financial statements. Due to Depreciation, interest received, working capital variances and prior year's adjustments were not adjusted correctly in calculating	The interest earned on investments and the interest earned on employee loans are shown under investment activities in the cash flow statement (Investment in Fund Deposit). Interest earned on investment and interest earned on employee loan and investment amount are included in it even though they are not presented separately.	Cash flow statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standard No. 2

the cash flows generated by the Institute's operating activities.

- (b) The capital grants provided by the Ministry of Labour for the purchase of the Institute's assets are used by the Institute for the purchase of assets. Similarly, the Ministry of Labour had given two cheques totaling Rs.1,124,700 for the capital expenditure of the institution and it was observed that these capital grants had been accounted for the reimbursement of its recurrent expenses by the Institute. And also these capital grants were taken as treasury grants in the financial performance statement of the year 2021. In accordance with Sri Lanka Public Sector Accounting Standard No. 11, the accounting policy used to identify the debit from non-exchange transactions was not disclosed in the financial statements. The institution had received two cheques totaling Rs.1,964,880 for capital expenditure from the Ministry of Labour for the year 2021 and it was confirmed by checking the bank statement of January 2022 that both cheques were realized on January 4, 2022. But the events after the balance sheet date that could further affect the situation as at the balance sheet date were not taken into the account in the financial statements.

According to the accounting standards, the events after the balance sheet date should be adjusted in the financial statements, but the accounting department of the Ministry of Labour had advised us in the year 2018 that even if the bills were given to the ministry for reimbursement, they should not be recorded in the balance sheet as receivables from Ministry. Also, from the year 2018, the Ministry of Finance has given instructions to the Ministry to pay the money under the Zero Budget. Therefore, from 2019 onwards, the institution kept its accounts on cash basis only. Therefore, although the provisions related to the year 2021 were received in the year 2022, those values were not recorded as 2021 receipts. Also, the capital expenditure has not been used as recurrent and the money given by the Ministry has been transferred to the account heads and copied to the accounts by mistake. Therefore, instructions were given to the Accounts Department to issue correct cash receipts when receiving the allocation in 2022.

Noted the accounting error to be corrected by making adjustments in the accounts of the year 2022.

The events after the balance sheet date should be accurately recorded in the financial statements

The Institute's depreciation policy Should be followed correctly.

(c) According to the Institute's depreciation policy, all assets should not be depreciated for the year of purchase and should be fully depreciated for the year of sale in the year of sale, but the property plant and equipment purchased in 2021 for Rs.20,440,900 was depreciated by Rs.2,102,180 for the year. The surplus was understated by Rs.2,102,180.

In the 2021 statement of changes in equity, the opening balance was shown as Rs. 202,157,806 in the accounts of 2020. The balance at the end of the year is clearly presented as the opening balance of 2021 so that the account users can identify it. And also Rs.6,133,798 has not been overstated at all and it is the previous year's adjustment. It has been disclosed as (Prior Year Adjustment) under paragraph 3 of Financial Statements Page No. 7.

(d) The statement of changes in equity of the institute had not been prepared in accordance with the provisions of Sri Lanka Public Sector Accounting Standard No. 01 and had shown the Government's contribution and accumulated fund as a single balance. Although a difference of Rs.6,133,798 was observed in the values stated above in comparison with the opening balance of the previous year, the reasons for that difference were not clear to the audit.

Interest earned on investments and interest earned on employee loans are presented under investing activities in the cash flow statement.

The statement of change in equity should be prepared in accordance with Sri Lanka Public Sector Accounting Standard No. 01.

(e) According to the information presented by the institution, although the investment interest for the year under review was Rs.12,753,403, the same amount was shown as Rs.9,218,664, less than Rs.3,534,739 in the financial statements. Due to this, in the year under review, the surplus was shown less than that amount.

The investment interest for the year should be calculated and accounted for correctly.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) 756 Finance Regulations of the Democratic Socialist Republic of Sri Lanka	Regarding 61 units related to 19 types of unusable goods submitted by the 2021 Commodity Survey Board through the common 47 form, the survey board's recommendations had not been dealt with before 15 March of the next financial year.	At present, the relevant equipment has been forwarded for the approval of the Honorable Secretary to be transferred to a government agency, and after receiving the recommendations of the internal audit department for that, will complete the work.	Actions should be taken with according to the finance regulations
(b) Section 20 of the Payment of Gratuity Act No. 12 of 1983	Although the cost of living should be included in the basic or consolidated wage or salary for the calculation of gratuity, the institute did not consider the cost of living while calculating the gratuity.	The accountant has been instructed to add the cost of living to the consolidated wage in the calculation of gratuity in the coming years.	Payment of Gratuity should be done as per the act.
(c) Paragraph 10.2 of State Finance Circular No. 2/2020 dated 28 August 2020 and Guideline No. 14	The performance report for the year 2021 submitted to the audit along with the financial statements was not prepared according to the relevant instructions.	The performance report for the year 2021 has been completed and submitted on the instructions of the Ministry of Labour.	Should be acted as per State Finance Circulars.
(d) 12.1 of State Finance Circular 02/2021	The annual report for the years 2019 and 2020 had not been tabled in Parliament as at 21 April, 2022.	2019 and 2020 have now been submitted for tabling in Parliament by now.	Should be acted as per State Finance Circulars.

(e) Sub-section 3 (1) (c) of the National Institute for Occupational Safety and Health Act No. 38 of 2009. Although the institute should work to establish national standards in the field of occupational safety and health, those standards had not been established by 30 April 2022. The Sri Lanka Standards Institute will be the authority for establishing national standards. Therefore, they have worked together with that institute to set up Standards. For example, Standard Practice Reparative Protection standards have already been published. Should be acted according to the Act.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 25,122,253 and the corresponding surplus in the preceding year amounted to Rs.11,057,350 Therefore an improvement amounting to Rs. 14,064,903 of the financial result was observed. The reasons for the improvement are mainly due to the increase in operating income.