

**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 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
No action had been taken to revalue the assets costing Rs.11,176,630 from the fully depreciated assets still in use costing Rs.24,730,308 as at 31st December 2021.	That the assets worth 11 million mentioned in the audit were not used for the revaluation as they are not used for operating income.	Sri Lanka Public Sector Accounting Standards should be followed.

### **1.5.2 Accounting Policies**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(A) The fully depreciated cost of Rs.3,096,741 plant and equipment was revalued to Rs.965,000 and the depreciation of Rs.193,000 for the year at the rate of 20 percent for these revaluated assets was not accounted for.	As it was revealed that the depreciation amount of the relevant year was not calculated due to a mistake in the accounting department based on the revaluated amount, it was corrected as a previous year note in the year 2023 under Journal No. 687.	Depreciation should be accurately calculated and accounted for.
(B) By revaluing the assets which cost Rs.13,553,678 to Rs.9,077,000, according to the audit, the revaluation profit was Rs.9,039,528, but in the statement of changes in equity included in the financial statements, the revaluation profit was stated as Rs.9,476,327. Accordingly, the revaluation profit was overstated by Rs. 436,800.	By calculating the above depreciation, the revaluation profit has been overstated and due to the above correction, the revaluation profit has been corrected.	Accounts should be prepared accurately.
(C) According to the asset revaluation schedule, the fully depreciated cost of	I would like to inform you that the accounting	Accurate information should be entered in the financial

Rs.14,058,605 assets was revaluated to department has confirmed statements. Rs.9,077,000 on 31 December 2022, that the value mentioned in but according to the financial the financial statements is statements, the cost of those assets was correct and they have taken stated as Rs.13,553,679. Accordingly, action to correct the a difference of Rs.504,926 was revaluation document. observed between the schedule and the financial statements.

- (D) As at 31st December 2022 the sum of opening balance of trail balance of equity and retained earnings is Rs. 233,597,501, but in the statement of change in equity, it was shown as Rs.235,156,680 and a difference of Rs.1,559,179 was observed. In preparing the accounts, the institution used an excel sheet and it was explained that the accounts were presented in a way that the users of the accounts could understand more easily. Accounts should be prepared accurately.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(A) National Institute of Occupational Safety and Health Act No. 38 of 2009	(i) In terms of sub-section 20 (1), the Minister may make orders for the purpose of carrying out any or all of the functions of the institution under the provisions of the Act and for the purpose of giving effect to the principles of the Act, even if such orders were not made.	I would like to inform you that the institute has submitted a cabinet paper with new amendments by the Ministry of Labour and presented it to the Honorable attorney general.	It should be done according to the provisions of the act.
	(ii) As per Section 11, a certain number of persons should be appointed by the council as directors of the institution as required for the efficient administration of the institution, but they were not appointed.	Regarding the relevant audit observation, I have made a note to pay attention to the board of directors meeting to be held in the future and note down to get the recommendations of the board of directors in this regard.	It should be done according to the provisions of the act.

(B) State Finance Circular No. 2/2020 dated on 28 August 2020	The performance report for the year 2022 submitted for audit with the financial statements in accordance with paragraph 10.2 of the State Finance Circular No. 2/2020 dated on 28 August, 2020 and Guideline No. 14 was not prepared in accordance with the relevant circular instructions.	In this regard, the Institute has followed the format presented in the performance year 2022 since the year 2020 and given the relevant circular number or instructions, instructions were given to arrange for the presentation of the correct performance report in the coming year.	The performance report should be prepared as per circular instructions.
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## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 48,116,618 and the corresponding surplus in the preceding year amounted to Rs.25,122,253 Therefore an improvement amounting to Rs. 22,994,365 of the financial result was observed. The reasons for the improvement are mainly due to increase in operating income and fixed deposit interest income.

## 3. Operational Review

### 3.1 Human Resources Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>The approved carder of the institute was 25 and the actual carder was 16. It was observed that the position of Director General, the position of the Chief Executive Officer, who is engaged in the performance of the management tasks assigned by the Board of Directors of the said institution, is employed on a contract basis. Although the position of Director (Health and Safety), which is an important task for the survival of the institution, requires the services of a permanent officer, the services of a resource person were obtained in necessary situations.</p>	<p>I would like to mention that arrangements have been made for the approval of the Department of Management Services to recruit a director and an assistant director from among the vacancies mentioned in the audit. Also, I confirm that for the position of Director (Health and Safety) mentioned in the audit, the same service as the position of Director General will not be obtained under the contract basis.</p>	<p>Recruitment of staff should be done and so that the institute can obtain its mission.</p>