

**1. Financial Statement**

**1.1 Qualified Opinion**

The audit of the financial statements of the National Institute of Labour Studies for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 , 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 2024 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**

I expressed qualified opinion 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 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 the 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 (Auditor's Responsibility for the Audit of the Financial Statement)**

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 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.
- 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 Statement**

### **1.5.1 Accounting Deficiencies**

| <b>Audit Observation</b>   | <b>Comments of the Management</b>  | <b>Recommendation</b>                                 |
|--|--|---|
| (a) Sri Lanka Public Sector Accounting Slanders No.1 requires that when the presentation or classification of items in the Financial Statements is amended the Comparative amounts shall be reclassified accordingly unless such reclassification is impractical .The institution had not complied with this requirement in the Financial Statements for the year 2023.30%of the profits remitted to the Treasury before the payment of bonus had been recognized as an expenses in the Profit and Loss Account whereas in the year 2024, the same amount had been presented under the statement of Changes in Equity. The presentation was inconsistent between the two years, and this required comparative reclassification had not been carried out. | By mistake the amendments was not included into the notes.   | Accounting standards and policies should be followed. |
| (b) The cash flow statement for the year 2024 had a previous year adjustment of Rs.1,056,258 with no cash inflows or outflows .  | It is acknowledged that the cash flow statement includes and this does not result in any cash inflow or outflow and will be corrected when preparing the accounts in the future. | -do-  |

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

|      | Reference to Laws, Rules regulations etc.                 | Non-compliance   | Management comments  | Recommendation  |
|------|---|--|--|---|
|      | National Institute of Labour Studies<br>Act No.12 of 2010 |  |  |   |
| (i)  | Section 3(d)  | Although library and information services should have been established and maintained as at March 2025, such information services had not been made operational. Furthermore, the activities relating to the redevelopment of the website had also not been completed. | <p>Currently, the institution is located on the 2<sup>nd</sup> floor of the General Secretariat of Labour, but there is not enough space to allocate for a library and since the books in the library are not updated, use has been minimal.</p> <p>Currently, a section of the 8<sup>th</sup> floor of the General Secretariat of Labour has been reserved for the activities of the institution and after the relevant renovation work is completed, a library will be established in a part of it in the future and the preparation of a website containing electronic publications has begun, and an e-library is being maintained in accordance with the present.</p> | Should be acted in accordance with the provisions of the Act  |
| (ii) | Section 3 (e)   | Although close cooperation should be carried out with national and foreign institutions, organizations, associations and societies with similar objectives, the work of signing Memorandum of  | The Memorandum of Understanding was signed on 13 September 2009 and expired on 13 September 2013. Thereafter, an attempt was made to re-implement it in 2020, but due to various reasons, it did not happen and on 29 March 2023, at a   | The achievement of this objective of the Act has been delayed for a long time and relevant steps should be taken to achieve |

Understanding had not meeting held with the local this.  
 been completed.. representative of the  
 International Labour  
 Organization under the  
 chairmanship of the  
 Secretary of the Ministry, it  
 was advised to resume the  
 related activities.  
 Accordingly, a Memorandum  
 of Understanding will be  
 signed with a labour  
 organization in the future.  
 The Ministry of Labour has  
 sent letters to the Attorney  
 General's Department from  
 time to time to obtain  
 observations regarding the  
 Memorandum of  
 Understanding.

- (iii) Section 16 (1) Although the Board may appoint a certain number of technical committees as may be necessary for the performance of its functions, the ability to appoint such committees has not been developed even after more than 24 years since the establishment of the institution. The National Institute of Labour Studies was established by Act of Parliament No. 12 of 2010 and 14 years have passed since its inception. The Governing Board will appoint technical committees based on the future needs of the Institute and no such need has arisen at present. Should be acted in accordance with the provisions of the Act

## **2. Financial review**

### **2.1 Financial result**

The operating result of the year under review amounted to a surplus of Rs.1,883,012 and the corresponding surplus in the preceding year amounted to Rs.11,095,653 . Therefore a deterioration amounting to Rs.9,212,641 of the financial result was observed. The reasons for the deterioration are mainly due to the increase in conducting programs and salaries and , increments of the allowances of the officers who joined on secondment basis.

## **2.2 Trend Analysis of main income and expenditure code**

- (a) The analysis of income and expenditure increased by 16 percent during the year under review compared to the previous year.
- (b) The cost of conducting programs in the year under review had increased by 88 percent and maintenance costs by 50 percent compared to the previous year.

## **3. Operation Review**

### **3.1 Management deficiencies**

| <b>Audit Observations</b>  | <b>Management Comments</b>   | <b>Recommendatiion</b>                                    |
|--|--|---|
| (a) The estimated cost of the Diploma Ceremony held in December 2024 was Rs.4,787,875 and the actual cost was Rs.4,959,061. There was a difference of Rs.1,737,875 between the estimated income and the actual income..  | That the main purpose of the diploma award ceremony is not to make a profit. | Estimated expenses should be managed efficiently.         |
| (b) While the training division prepares an income and expenditure estimate when conducting courses, no cost and benefit study has been conducted due to the lack of comparison of estimated costs and actual costs. Although income in 2024 increased by 16 percent compared to 2023, costs for program activities increased by 88 percent. | It is advised to prepare separate cost estimates for courses in the future.  | Resources should be managed economically and efficiently. |