

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 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy information 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 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

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 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 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

	Non-Compliance with the reference to particular Standard	Comment of the Management	Recommendation
(a)	In accordance with paragraph 49 of Sri Lanka Public Sector Accounting Standards 7, if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. But the Council had not revalued a motor vehicle costing of Rs.2,739,500 when revaluing motor vehicles.	Although all vehicles have been sent for revaluation, the above-mentioned cab had not been given a revaluation value by the Valuation Department since it was not in running condition.	According to Sri Lanka Public Sector Accounting Standards, when revaluing assets, the entire class of assets should be revalued.
(b)	Since useful life time of the non-current assets had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, computer software costing of Rs. 1,189,567 were further in use despite being fully depreciated. As such, action had not been taken to revise the said estimated error in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 03.	Noted. Action will be taken to revalue of computer software and account for the year 2025.	The useful lifetime of assets should be revalued and accounted in annually, in accordance with Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The motor vehicles with a net value of Rs. 18,804,515 had been revalued at Rs. 31,800,000 based on the valuation report provided by the Government Valuation Department in December 2024 regarding motor insurance. As such, the revaluation reserve and the cost of the motor vehicles had been overstated by Rs. 12,995,485 in the financial statements.	The objective of revaluation is to adjust assets to market value. Accordingly, the market value of vehicles had been included in the financial statements as per the valuation reports related to vehicle insurance.	Valuation reports obtained for the purpose of motor insurance should not be used for revaluation, and vehicle revaluation should be carried out correctly and accounted for.
(b)	A sum of Rs. 1,341,400 incurred for vehicle repairs during the year under review had been capitalized and the corresponding depreciation provision of Rs. 52,496 being accounted for. As such, the deficit for the year and fixed assets were understated and overstated by Rs. 1,288,904 respectively in the financial statements.	These capital nature vehicle repairs will generate benefits over several years and increase the assessed market value of the vehicle. As such, these expenses had been capitalized.	Expense classifications should be accurately identified and accounted for.
(c)	The fixed deposit worth of Rs. 10,000,000 which was converted into cash during the year under review, was not shown as a cash inflow from investing activities in the cash flow statement.	This fixed deposit was shown under cash and cash equivalents in the year 2023 and had been removed from the value of cash and cash equivalents in this year. Accordingly, the error of not showing cash outflows in the year 2023 had been offset by the error of not showing cash out flows in this year.	Cash inflows and outflows should be accurately reflected in the cash flow statement.

1.6 Financial Management

Audit Observation	Comments of the Management	Recommendation
Three cheques worth of Rs.100,000 dated 31 December 2024, with a validity period of 30 days, had been retained without being issued until March 2025.	No comments were made.	Cheques should be issued within the validity period without retained.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 25,678,013 and the corresponding deficit in the preceding year amounted to Rs. 1,370,102. Thus a deterioration amounting to Rs. 24,307,911 of the financial result was observed. The decrease in government grants received to cover recurrent expenditure had mainly attributed for this deterioration.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although 26 years had been passed since the establishment of the institute, according to Section 14(1) of the Human Resource Development Act No. 18 of 1997, the final result of the task of formulating a Policy for the Development of National Human Resources, one of its primary objective, was unable to reach even by 31 December 2024.	The National Policy for Human Resources Development should be formulated based on the national policies of the new government and with its concurrence, and work is currently underway with the Secretary to the Ministry of Public Administration, Provincial Councils and Local Government to create the necessary environment for this.	Special attention should be focused to fulfilling the primary objective of establishing the National Council.
(b) According to Sections 16(2)c and 16(2)f of the Act, a data bank containing information on various areas related to human resource development which helps to fulfill the primary objective of the institution should be maintained. But a data bank had not been maintained even by 31 December 2024.	Establishing a data bank will be a function which should be carried out by a staff officer with the assistance of an Information Technology officer. Action will be taken to complete this task upon approval of the future restructuring function of the council.	The necessary actions should be taken to maintain a data bank as specified in the Act.
(c) Although Section 10(5) of the Act provides for the regularization of	Accepted. It was planned to hold 06 Governing Board meetings	Attention should be focused to executing

the procedure to be followed in holding meetings and conducting the activities of those meetings, a formal procedure had not been approved for holding meetings of the National Council, which consisted of 20 members, and only 04 meetings were held in the year 2024.

for the year 2024, but due to the holding of the Presidential and Parliamentary elections and a new government come to the power, the said Governing Board meetings could not be held. Up to now, one Governing Council meeting had been conducted in the year 2025 and it is planned to hold 6 meetings per year.

the functions mentioned in the Act.

3.2 Utilization of resources of other organizations

Audit Observation	Comments of the Management	Recommendation
The council was unable to acquire the motor vehicle valued at Rs. 6,300,000 given to the Council from a Ministry in the year 2023 even by 14 March 2025.	The request to take over this cab had been submitted to the Secretary of the Ministry of Public Administration, Provincial Councils and Local Government on 11 March 2025, and necessary actions have been taken to expedite the process of taking over the cab.	The process of taking over the cab should be expedited.

3.3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
The post of Director of the National Council since 23 April 2021, the post of Assistant Director (Research) since 31 October 2020, the post of Assistant Director (Finance) since 22 February 2024 and the post of Assistant Director (Development) since 29 September 2024 had been vacant and officers had been appointed on an acting basis from time to time for covering up duties of those posts. It was unable to recruit new officers for those vacant posts until 14 March 2025.	The official selected to the position of Director was unable to assume duties due to not being released from the place of work where she was working. Requests have been made to fill the vacancy of the post of Assistant Director (Research) from the letters dated 05 August 2024 and 21 October 2024 respectively. An Accountant of the Ministry of Public Administration, Provincial Councils and Local Government is acted of the post of Assistant Director (Finance) from 02 December 2024. Requests have been made to the Prime Minister's Committee, appointed under the leading of the Prime Minister's Secretary, to fill the vacancy of the Assistant Director (Finance) position.	Essential Recruitment should be made in consultation with the Department of Management Services.