

**1.1 Qualified Opinion**

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The audit of the financial statements of National Human Resource Development Council of Sri Lanka for the year ended 31 December 2019 comprising the statement of financial position at 31 December 2019 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 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 the 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 Council as at 31 December 2019, 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**

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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**

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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 Scope of the Audit

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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 National Human Resource Development Council 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 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 Financial Statements

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### 1.5.1 Internal Control over the Preparation of Financial Statements.

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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-compliances with Sri Lanka Public Sector Accounting Standards

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The following observations are made.

	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a)	Even though all items of revenue and expense recognized in a period should be included in surplus or deficit in terms of the paragraph 99 of the Sri Lanka Public Sector Accounting Standards 01, only the net value of Rs 671,900 was stated as a negative balance under the income in the financial statements for the year under review without including the revenue amounted to Rs. 14,693,000 received for the foreign training programs implemented by the Council and Rs. 15,364,900 expenditure incurred thereon in the financial statements.	Instructions were given to report the correct information in the next year in this regard.	Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

- (b) even though Intangible Assets should be shown separately under non-current Assets in the statement of financial position as per Sri Lanka Public Sector Accounting Standards 20, had not been done so on net value of computer software valued for Rs. 324,653.
- Agreed. Instructions were given to comply with the standards in the preparation of accounts in future years.
- Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

### 1.5.3 Accounting Deficiencies

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) A sum of Rs. 250,000 allocated for the payment to a consultant in a previous year had been accounted as income of the year under review without treated as prior year adjustment and a sum of Rs. 900,000 received for a foreign training program from two external institutions but due to non-implementation of the relevant program had been stated as income of the year under review instead of consider as payable expenses. As such, deficit of the year had under stated by Rs. 1,150,000 in the financial statements.	Agreed	Revenue and expenditure should be accurately identified and accounted for. Also, action should be taken to correct the accounting error that has occurred.
(b) A sum of Rs.96,687 had been paid as gratuity during the year under review and had been accounted as expenditure in the year instead of debiting to the provision of gratuity account. As such, the deficit of the year had over stated in the financial statement. Also, according to the calculations of the audit, the gratuity provision for the year under review was Rs. 2,999,559 but as per the calculations of the	Agreed.	Expenditure of the year should be accurately accounted for and provision for gratuity should be calculated accurately. Also, action should be taken to correct the accounting error that has occurred.

institution the value was Rs. 3,227,167, hence, over provision of Rs. 227,608 was observed.

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| (c) | Even though the cheque for Rs. 130,000 issued during the year under review had been canceled during the year, that liability had not been re-stated in the account and, therefore, current liability in the year under review was understated by that amount in the financial statements. | Agreed. | Canceled cheques should be properly accounted and action should be taken to correct the accounting error that has occurred. |
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#### 1.5.4 Unreconciled Control Accounts and Records

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The following observations are made.

Subject	Value as per the financial statement (Rs)	Value as per the corresponding records (Rs)	Difference	Comments of the Management	Recommendation
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(a) Furniture & Equipment	4,484,257	4,988,000	103,743	Calculations were made based on the information available to the institution. Unable to explain due to that the differences have been coming for years.	When preparing financial statements, a comparison between fixed asset schedules and ledger accounts should be done and accurate information recorded.
(b) Vehicles	15,227,342	14,530,900	806,542	Calculations were made based on the information available to the institution. Unable to explain due to	When preparing financial statements, a comparison between fixed asset schedules and ledger accounts should be done and accurate

that the information differences recorded have been coming for years.

**1.6 General Control procedure over Information Technology (IT)**

Non-compliance	Comments of the Management	Recommendation
<p>The Human Resource Development Council used the "Quick Book" accounting software for its accounting process. Due to the lack of a proper internal control system, it was possible to make repeated adjustments to the relevant ledger accounts and remove existing adjustments after the approval of the financial statements. Also, according to this accounting software, the account balances had not been carried forwarded automatically by the system and at the end of the financial year and it had to be re-entered manually for the following year. Accordingly, there was no confirmation of the accuracy of the comparative information in the financial statements.</p>	<p>Agreed. It is difficult to shifting to a new accounting software due to the available provisions. Agree to consider in future years.</p>	<p>Control systems should be introduced to prevent errors and frauds in the accounting system.</p>

**2. Financial Review**

**2.1 Financial Result**

The operating result for the year under review had been a deficit of Rs. 1,852,255 as compared with the corresponding surplus of Rs. 5,596,047 for the preceding year, thus a deterioration of Rs.7,448,302 was observed in the financial result.

**3. Operational Review**

**3.2 Operational Inefficiencies**

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) According to paragraph 14 (1) (2) of the Sri Lanka National Council for Human Resource Development Act, special attention should be paid to the</p>	<p>In line with the vision of the then government in 2015, the Council has made plans to cover all these issues in the next</p>	<p>Expected programs should be implemented to achieve the objectives of the Council.</p>

functions of the Council and its subjects in the executing of that functions such as administration, education, employment, science and technology, rights and population. But the organizations' operates under the vision of a "workforce ready for the future" and Considering the activities of the year under review, it was observed that this Council had not executed a long term program covering the above broad field.

five year plan under the vision of a "workforce ready for the future". Action had already been taken to formulate the Human Resource Development Policy in accordance with the new Government's "Vision for Prosperity" policy with the assistance of two resource persons.

- (b) Even though the Council has the power to establish and maintain a database containing information on human resource development and related areas in terms of paragraph 16 (2) (e) of the National Council for Human Resource Development Act, by the end of the year under review action had not been taken to maintain an updated database containing the necessary information to facilitate the objectives of the Council.
- Agreed. Preliminary discussion was held with ICTA on 28.09.2020 to establish and maintain an information system on human resource development from the year 2020 and the future activities have been included in the short term, medium term and long term plans of the organization.
- Expected programs should be implemented to achieve the objectives of the Council.

#### 4 Accountability and Good Governance

##### 4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
Even though the financial statements should be submitted to the Auditor General within 60 days from the end of the financial year as per Section 6.5.1 of Public Enterprise Circular No. PED / 12 of 02 June 2003 and Treasury Circular No. 01/2004 of 24 February 2004, the Council had	Due to the delay in appointing the members of the Board of Directors until 04.03.2020 and the subsequently Covid-19 epidemic situation, the first Board Meeting for the year 2020 was held on 16.07.2020. Subsequently, the report for the meeting was prepared and the financial	Management should pay attention to the submission of financial statements before the due date as per the circular instructions.

delayed the submission of financial statements for the year under review until 10 August 2020. statement was submitted.

**4.2 Annual Action Plan**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>By the letter of the Secretary to the Ministry of National Policies and Economic Affairs No. DPMM / DG / 037dated 06 November 2015, identifying the priority areas that public institutions should focus on in achieving their goals and measuring their outputs and outcomes, Guidelines were provided to establish basic performance indicators and to formulate an organizational results framework so that continuous performance can be measured accordingly. However, by the end of the year under review, the Council had not been able to carry out its duties properly.</p>	<p>Even though the action plan had been formally prepared, the outcome column of the action plan, prepared in accordance with the new format re-issued by the Ministry, is not included. Therefore, this has happened due to the provided format by the Ministry was used. Even though the Vision and Mission were not included in the action plan, Since 2015 all programs have been implemented under the then new government with a vision of a future workforce under five major trust areas.</p>	<p>The institution should be implemented on an action plan with a vision in line with the objective of the establishment of the institute and national policies.</p>