Sri Lanka Institute of Local Governance -2013

The audit of financial statements of Sri Lanka Institute of Local Governance for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance , statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes to the financial statements 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 18 of the Sri Lanka Institute of Local Governance Act No.31 of 1999. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1:2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute for the preparation and fair presentation of the financial statements 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 internal control of the Institute. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1:4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Institute of Local Governance as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2:2 Comments on Financial Statements

2.2.1 Accounting Deficiencies.

The following observations are made.

(a) The consultation fees of Rs.360,000 incurred in respect of the building constructions had been brought to accounts as operational expenditure during the year under review instead of capitalizing the relevant assets.

(b) Provisions for the employees gratuity for the year under review had been understated by Rs.69,962.

(c) Without carrying out a physical verification, the book balance of the stock had been shown in the financial statements and adjustment had not been made in respect of the stock of publication amounting to Rs.43,904 sold during the year under review.

(d) Although the library book balance as at the end of the year under review amounted to Rs.193,593 in accordance with the financial statements, books valued at Rs.131,953 received as donations and the books shown in foreign currencies to the value of $ 220.80 and £ 201.25 had been omitted from the accounts. In addition, the value of 1286 books had not been computed.

2.2.2 Lack of evidence for audit

The receipts pertaining to the sum of Rs.3,236,930 received during the year under review had not been furnished to audit and the receipts had not been issued in respect of a sum of Rs.1,132,797 received for a seminar and from the settlement of staff loan that had been directly remitted to the bank.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed.

	Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a)	Establishments Code of the Democratic Socialist Republic of Sri Lanka.	
	Section 11.1.5 of Chapter XXIV	Even though the property loan can be paid only once, a consultant of the Institute had been paid the property loan amounting to Rs. 500,000 again in the year 2012 despite the respective consultant had been paid a loan of Rs.700,000 in the year 2005 for the same purpose.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
	(i) Financial Regulation 371 (b)	It was observed that periods ranging from 30 to 168 days had been taken to settle the advance of Rs.434,638 granted in 25 instances. Before granting advances, an estimate prepared upon the identification of the purpose had not been approved. Due to the grant of advances without any plan, 69 instances of savings and settling of half or approximate amount of the expenditure incurred were observed. Further, it was observed that there were instances of granting advances before the settlement of earlier advances paid.
	(ii) Financial Regulation 751,756 and 757	Inventory registers of each division had not been maintained and the reports of the Board of surveys had not been furnished to audit.
	(iii) Financial Regulation 264 (i)	Acknowledgements of the recipient obtained the payment of Rs.2,869,924 pertaining to 36 payment vouchers were not made available for audit.
	(iv) Financial Regulations 1645 (a),	

	1647 (a)	Log books of the vehicles had not been maintained as per the regulations.
(c)	Paragraph 3(III) of the Ministry of Finance and Planning Circular No.01/2010/01 dated 11 October 2010.	Even though it was stated that a payment of U$D 30 per day should be made when an officer proceeds abroad for studies or training, payment at the rate of U$D 50 per day in respect of participation of two officers of the institute in the training programmes and seminars had been made and as such an over payment of Rs.37,733 had been made for 14 ½ days.
(d)	Public Administration Circular No. 21/2013 dated 07 October 2013.	(i) A staff officer who is entitled to work on a public holiday or an officer not entitled to claim overtime allowances should obtain the prior approval of the head of the institute for maximum of 02 days within a colander month and the prior approval of the Secretary to the Ministry for a period exceeding two days. A sum of Rs.60,561 had been paid to 17 officers for 42 days without such approval.
		(ii) A sum of Rs.16,256 had been paid to 10 officers as 1/20 allowance for 35 days from 19 September to 18 October 2013.
		(iii) Attendance had not established that the aforesaid officers had performed duties for eight hours.
(e)	Public Administration Circular No.08/2005 dated 31 March 2005.	Grant of property loans through the Banks was initiated from 01 January 2005. Nevertheless, property loan amounting to Rs.8,433,200 had been paid to 10 officers by the Institute from the other revenue accounts contrary to the said circular.
(f)	Public Administration Circular No. 30/2008 dated 31 December 2008 and the National Budget Circular No. 157 (1) dated 31 January 2013.	In granting distress loans the maximum limit should be considered as the cumulative basic salary of 10 months or Rs.250,000 whichever is lower whereas distress loans ranging from

Rs.293,000 to Rs.435,000 had been granted to three officers. In terms of the National Budget circular, the loans obtained exceeding this limit the excess money should be recovered, but it had not been done so.

2.4 Transactions not supported by an adequate authority.

The following observations are made

(a) In terms of the financial statement, the staff loans granted to the officers without complying with the Establishments Code and Circulars had been Rs. 13,622,846 as at the end of the year under review. It included a sum of Rs.777,722 recoverable from 08 deceased and resigned officers existing from the year 2010 and Rs. 30,707 of other staff loans existing from 2011. However, the Institute had not taken a formal measures to recover the staff loans.

(b) A sum of Rs.100,000 had been paid more than the property loan amounting to Rs.1,447,800 applied by an officer.

(c) In terms of the Public Finance Circular of the Secretary to the Treasury, when allowances are obtained in addition to the salary, only the benefits approved by the Cabinet of Ministers or the Ministry of Public Administration or the General Treasury should be paid. Nevertheless, the following allowances had been paid on the approval of the Board of Directors.

(i) A sum of Rs.286,257 had been paid to the staff including the Director at the rate of 10,000 per each officer during the year under review as an incentive.

(ii) Contrary to the terms of the Circular issued by the Institute with regard to the payment of allowances, a sum totalled Rs. 438,800 had been paid to 05 officers as Resources Persons allowances, Coordinating allowances, allowances for clerks and allowances for Karyala Karya Sahayaka. Further a sum of Rs.31,000 had been paid to the staff including the Director at the rate of Rs.1,000 as the project contribution allowances in respect of a special training workshop during the year under review.

(iii) Contrary to the Management Services circular, apart from obtaining allowances for carrying out duties assigned by the projects, a sum of Rs. 38,155 had been paid to three officers as a 1/3 allowance for the month of January 2013.

(d) An annual salary of Rs.480,000 at the rate of Rs.40,000 per month had been paid to a post of a Media Consultant, which is not included in the cadre approved by the Department of Management Services on 21 February 2000 and 11 January 2013. Even though contributions for Widows and Orphans' Fund and Agrahara Scheme should be deducted from the salary of this officer from December 2011 up to 31 December 2013, contributions for deducted

Widows and Orphans' Fund of Rs. 118,400 and Agrahara Rs.2,775 had been retained in the Accrued Expenditure Account. Attendance of this officer had not been supported by any documentary evidence and holiday pay totalings Rs.120,000 had been paid at the rate of Rs.10,000 in respect of 5 days in each month without prior approval.

2.5 Transaction of contentious nature.

In the examination of running charts, payment vouchers and fuel order registers relating to 05 vehicles, it was observed that fuel obtained to the value of Rs.286,598 had only been recorded in the order register and the payment vouchers without recording it in the running charts. The duplicate of the fuel order had not included the quantity of the fuel pumped to the vehicle and it had not been established in making payments for these orders that the fuel quantity pumped to the vehicle was recorded in the running charts.

3. Financial Review

Financial Results

According to the financial statements presented, the operations of the Institute for the year under review had resulted in a deficit of Rs.8,575,023 as compared with the corresponding deficit of Rs.3,467,357 for the preceding year, thus indicating a deterioration of Rs.5,107,666 in the financial results of the year under review as compared with the preceding year. The decrease in other income by Rs.5,615,683 or 37 per cent and increase in operational expenditure by Rs.5,451,583 or 10 per cent had mainly attributed to the above deterioration.

4. Operating Review

4:1 Performance

A sum of Rs.18,000,000 had been allocated for 8 divisions through the Annual Budget for the conduct of workshops and training courses to enable the members, the officers and employees of the Provincial Councils and the Local Authorities to perform their duties efficiently and effectively. Even though a sum of Rs.18,075,295 had been spent in this regard during the year under review, the divisional reports observed that the Institute had not achieved the performance as planned.

(i) According to the Action Plan of the Engineering Division, 29 programmes had been planned but 21 programmes had been conducted and its performance had been 66 per cent. Four programmes planned had not been conducted while 05 training programmes at the Provincial Council level for which Rs.500,000 had been allocated had also not been conducted.

(ii) Out of the 25 progremmes planned by incurring a sum of Rs.712,545 more than the provisions of the General Management Division only 15 programmes had been conducted. Although it was planned to participated members of the Provincial Councils and Local Authorities to a programme planned under 04 units of this division, no members had been participated at least for a single programme. Programmes at provincial level for which Rs.500,000 had been allocated had also not been conducted.

(iii) Financial Management Division.

- Even though the provision allocated was Rs.2,500,000 the amount incurred had been Rs.3,338,530. In the examination of this expenditure it was observed that the expenditure amounting to Rs.1,661,540 of the Local Government Financial Management Diploma Course conducted by charging fees and the expenditure of Rs.77,723 incurred for the conduct of a part of programmes belonging to the Financial Management Division pertaining to the Higher Diploma Course conducted by this free of charge for four days had been included in the expenditure of this division.

- Out of the provisions made for the Financial Management Division for the year under review, 70 per cent had not been utilized relevant to the objective and as such it was observed that the implementation of training courses pertaining to the development and efficiency of the financial and other management functions of the Local Government Authorities had been at a weak level.

- Even though it was planned to complete the Diploma course charging fees in 24 days according to the Action Plan, it had taken 58 days to implement this programme. It is emphasized in the audit that it should be included as one course.

(iv) Out of the 34 programmes planned by the Legal Division only 20 programmes had been conducted and a sum of Rs.308,297 exceeding the allocated amount of Rs.2,500,000 had been spent.

(v) Despite it was planned to incur Rs.2,500,000 for 11 programmes of the Research, Publication and Library Division a sum of Rs.2,561,985 had been spent to conduct 05 programmes. Even though a provisions of Rs.200,000 had been made in respect of provincial level training programmes, a progress in that connection was not made availabe to audit. The expenditure of Rs.425,000 incurred on Certificate Course in Research Method of this division by charging fees had been included in the expenditure of this division.

(vi) A difference of Rs.2,734,649 was observed between the expenditure of the training programmes in the financial statements and the progress reports of each division.

4.2 Management inefficiencies

The following observations are made

(a) In order to prepare the Corporate Plan of the Institute, which should be prepared by the officers in charge of the divisions, a sum of Rs.100,000 had been obtained by the Engineering Consultant of the Institute and the Secretary of the Board of Directors.

(b) The income from sale of publications for the year amounted to Rs.43,904. It was a sales value as low as 2.8 per cent from the stock value. Accordingly, the measures adopted for the promotion of sale had been insufficient.

4.3 Operating inefficiencies

Even though 60 days had elapsed the period of contract of 300 days on 30 September 2014 as per the agreement entered into with the contractor on 28 November 2013 for the construction of the new building, only the foundation had been completed.

4.4 Identified losses

Since stationery and publications had not been stored securely, stationary valued at Rs.35,196 had been decayed.

4.5 Personnel Administration

Even though the approved cadre of the institute as at 31 December 2013 was 48, the actual cadre was 31. Accordingly, the number of vacancies was 17 . The management had not taken necessary steps to fill the vacancies.

5. Accountability and Good governance

5.1 Presentation of Financial Statements.

In terms of the Section 6.5.1 of the Circular No. PED/12 dated 02 June 2003, the financial statements should be furnished to audit within 60 days after the year of accounts, the Institute had furnished the financial statements on 17 September 2013 with a delay of 07 months.

5.2 Unresolved Audit Paragraphs

(a) As per the decision of the Committee on Public Enterprises held on 05 March 2014, it was stated that the covering approval of the Treasury for the bonus paid in the year 2011 and thereafter should be obtained. However, such an approval had not been obtained even by the month of November 2014.

(b) Even though a directive had been issued by the Committee on Public Enterprises held on 05 March 2014 to prepare a procedure for the training of employees of the Local Authorities on the preparation of financial statements of Local Authorities in accordance with the Sri Lanka Public Sector Accounting Standards since the year 2013, an appropriate programme had not been prepared and published in the gazette by the Minister with the concurrence of the Parliament even by 30 October 2014.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the attention of the Director of the Institute from time to time. Special attention is needed in respect of the following areas of control.

(a) Assets Management
(b) Staff Loans
(c) Conduct of workshops and payment of allowances
(d) Control of vehicles.