

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sri Lanka Institute of Local Governance for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in net assets 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 tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 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 2020, 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 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 fund'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 fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the fund 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 fund.

1.4 Scope of the Audit (Auditor's Responsibility for the Audit of the Financial Statements)

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 fund'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 fund'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 fund 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 fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing council of the fund;
- Whether the fund has performed according to its powers, functions and duties; and
- Whether the resources of the fund 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 Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-Compliance	Management Comment	Recommendation
(a) Section 11 (1) of the Sri Lanka Institute of Local Government Act No. 31 of 1999	Although meetings of the governing council should be held at least once every month, after the 168 th meeting which held on 25 October 2019, 24 governing council meetings had not been held until 18 June 2021.	The Governing Council will be convened in due course.	Meetings of the Governing Council should be held in accordance with the provisions of the Act.
(b) Section 11 (2) of the Sri Lanka Institute of Local Government Act No. 31 of 1999	As per Act 5 (1) (a) (i) of the Sri Lanka Institute of Local Government Act No. 31 of 1999, The Chairman of the Sri Lanka Institute of Local Governance is the Secretary to the Ministry of Local Government and Provincial Councils and although the Chairman should have informed the other members of the Board at least 7 days in advance and convened the governing council, the Chairman had not been taken action to convene the governing council.	The Governing Council will be convened in due course.	Meetings of the Governing Council should be held in accordance with the provisions of the Act.

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| (c) | Section 13.1 (b) of the Sri Lanka Institute of Local Government Act No. 31 of 1999 | Although a function of the governing council to enforce disciplinary control over officers and employees, Without the approval of the governing council, the Director of the Institute had been settled a disciplinary inquiry into a financial fraud against an Additional Director of the Institute, which had been going on four years at a cost of Rs. 600,000 and accepted her resignation and decided to pay the gratuity. | Illegal decisions that have not been considered by the Governing Council will be reviewed and further action will be taken after discussions with the Governing Council. | Action should be taken in accordance with the provisions of the Act. |
| (d) | Section 13.1 (b) of the Sri Lanka Institute of Local Government Act No. 31 of 1999 | A committee chaired by the Secretary to the Ministry of Local Government and Provincial Councils had made several recommendations regarding the Deputy Director (Training) in connection with an incident that took place on 6 December 2018 for the Advanced Diploma Course group conducted by the Institute. The 165 th meeting of Governing council, which met on 9 April 2019, had discussed and approved the implementation of the recommendations and although due to non-acceptance of the orders by the relevant Deputy Director, the payment of salaries had been stopped on the instructions of the Secretary to the Ministry. However, the Director had been canceled the assigning without the approval of the Governing Council and paid the salaries on 19 February 2020. | Illegal decisions that have not been considered by the Governing Council will be reviewed and further action will be taken after discussions with the Governing Council. | Action should be taken in accordance with the provisions of the Act. |
| (e) | Section 5 (1) of the Gratuity Payments Act No. 12 of 1983 | According to the findings of the formal disciplinary inquiry conducted against a driver of the Institute, the guidelines for disciplinary action in the investigation report had pointed out | Illegal decisions that have not been considered by the Governing | Action should be taken in accordance with the provisions of the Act. |

that fraud through fuel orders had been committed in collusion with the Internal Auditor. However, regardless of that, the relevant Internal Auditor had been promoted as per the decision of the governing council held on 21 November 2017. The officer has resigned from the post with effect from 1 June 2018 and He had reported the matter to the Commissioner of Labor and had been ordered to pay a surcharge of Rs. 117,322 for non-payment of his due gratuity of Rs. 469,287. The amount was paid on 27 February 2020 and the surcharge had been stated under administrative expenses without taking action to recover from the persons responsible.

Council will be reviewed and further action will be taken after discussions with the Governing Council.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs. 2,688,580 as against the deficit of Rs. 953,590 for the preceding year thus observing a deterioration of Rs. 1,752,990 in the financial result. This deterioration had mainly been attributed by the reduction of government contributions by Rs. 22 million.

2.2 Trend Analysis on the Main Items of Income and Expenditure

There had been decrease from Diploma course income of Rs. 4,516,125 equivalent to 89.54 per cent and Special project revenue of Rs. 2,513,884 equivalent to 51.08 per cent and Human resource development expenditure had declined by Rs. 21,342,105 equivalent to 81.80 per cent. The low level of training programs conducted during the year under review was the main reason for it.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

Comment of the Management

Recommendation

(a) Although a resource persons list which includes 72 names for the year 2020 has been prepared for the training courses conducted by the institute, it had not been approved by the governing council. Information on the methodology used to identify resource persons in preparing the resource persons list, had not been submitted to the audit.

No comments

The list of resource persons should be approved by the governing council and a formal program should be launched to revise the resource persons list annually.

(b) It was observed that the IT Division of the Institute maintained a separate resource person list and the Program Officers also has been acted as resource persons. If there are qualified program officers who can serve as resource persons, a suitable methodology had not been developed for inclusion them into the resource persons list.

No comments

Training programs should be conducted by the selected resource persons.

(c) A formal procedure in selecting officers in the Local Government Institutes for training programs had not been followed and in addition to the target group, non-relevant officers had been participated. The same team at the local government level had been participating in various training programs due to the lack of a formal program to identify the

No comments

Training programs should be conducted for the target groups and a formal program should be launched in this regard.

training requirements as well as to involve the required officers.

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| (d) | The organization chart of this training institute had not been formalized to suit with the objectives. There was no systematic organizational structure to delegate authorities to the new posts based on staff restructuring to achieve the objectives of the organization. | A systematic organizational plan is currently being drawn up to delegate authorities after resolving the problematic status of the new posts from the Management Services Department. | A systematic organizational structure should be drawn up to delegate authorities to the posts. |
| (e) | According to the recruitment procedure, the officer acting as the consultant (physical plan) should perform the functions of identifying, planning, organizing, coordinating and advising on legal and technical matters for the physical planning of the local authorities, but had not been performed more than the role of a program officer. | Since there is no program officer, so those functions and the necessary arrangements have been made to prepare two consulting services and development plans. | Assign duties to the officers and the performance should be checked accordingly. |
| (f) | Apart from Management Assistants and Program Officers, other staff members had not been formally assigned duties. | Only these officers have been assigned duties by letter of duty and will make arrangements to do the same for other officers in future. | Officers should be formally assigned duties. |

3.2 Shortcomings in Contract Administration

Audit Observation

In the year 2013, a contractor was selected by bidding for the construction of a 4 storied building for a contract amount of Rs. 53,196,907 and The construction of the pile foundation of the building was

Comment of the Management

A Cabinet Memorandum has been submitted to the Cabinet by the Ministry of Provincial Councils and Local Government regarding the construction

Recommendation

The construction work of the institution building should be inspected and further work

outsourced by the Chief Contractor to a Subcontractor. Due to change the plan to increase to 8 storied after constructing a pile foundation sufficient for 4 storied and the institute has accepted that it is not appropriate to construct the building on the relevant pile foundation, the expenditure incurred of Rs. 44,757,072 on this was a non-performing expenditure.

of the new building. Accordingly, the National Procurement Commission has been instructed to look into past expenditure and discussions are underway with the University of Moratuwa regarding future construction work. should be expedited so as not to cause any loss to the government.

3.3 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
<p>(a) Amendments related to absorption and recruitment of staff for new posts created through staff restructuring in the recruitment procedure had not been made until 31 August 2021.</p>	<p>The Management Services Department has been contacted, as it is not clear which salary code has been approved for the newly created posts and the recruitment procedure could not be amended until its decision was made.</p>	<p>The amendment should be made expeditiously and properly.</p>
<p>(b) The confirmation and promotion of the officers had not been done properly due to non-conduct of efficiency bar examinations on the due date, according to the Section 15.1 (IX) of Chapter II of the Establishments Code and Section 4 of the Institutional Recruitment Scheme.</p>	<p>Necessary arrangements have been made for the approval.</p>	<p>As stated in the Establishments Code, efficiency bar examinations should be conducted on the due date and the service of the officers should be confirmed and promoted in a proper manner.</p>
<p>(c) The Director has received a monthly salary of Rs. 114,645 which is the 10th salary step in the HM 2-2 salary code without obtaining the remunerations</p>	<p>Action will be taken to check and correct if any errors.</p>	<p>The overpaid salary should be recovered and placed on the correct salary step.</p>

prescribed by the Treasury and an additional amount of Rs. 513,000 had been received from February 2020 to August 2021.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation

Comment of the Management

Recommendation

Although the financial statements should be submitted to the Auditor General within 60 days from the end of the financial year, the financial statements for the year 2020 were submitted on 30 June 2021 in accordance with the paragraph 6.5.1 of the Public Enterprise Circular No. PED/12 of 02 June 2003.

Since the Governing council was late to meet, it was late to present the financial statements.

Actions should be made to submit financial statements on the due date.

4.2 Annual Action Plan

Audit Observation

Comment of the Management

Recommendation

In accordance with the Fiscal Circular Regulations No. 01/2014 and dated 17 February 2014, An action plan aimed at achieving the objectives of the institute with a long-term vision had not been formulated according to the priorities based on the annual budget and the expected output / results of those activities had not be included to the action plan.

The action plan will be submitted for the coming year as mentioned in the circular.

Should be adjusted accordingly.

4.3 Budgetary Control

Audit Observation

Pursuant to Section 8 of the Finance Act No. 38 of 1971, all government corporations were required to prepare and approve a budget not less than three months prior to the commencement of the relevant financial year, but the Budget for the year 2020 had not been approved by the Governing Council. As a result, it was observed that the expenditure was borne by the institute without any approved budget limits. Also, the Governing council did not pay attention to Annexure A, paragraph 9 of Circular No. PED 01/2020 of the Secretary to the Ministry of Finance and Economic Policy Development regarding the non-approval of a budget for the year 2020.

Comment of the Management

An accurate budget will be presented in the future.

Recommendation

Actions should be taken according to the rules and regulations.

4.4 Environmental Issues

Audit Observation

The environmental and social responsibilities of the institute had not been identified.

Comment of the Management

Action will be taken in the future.

Recommendation

Action should be as prescribed.

4.5 Sustainable Development Goals

Audit Observation

Since the Sri Lanka Institute of Local Governance is not aware of the Agenda for the year 2030 for Sustainable Development Goals, action had not been taken to identify the Sustainable Development Goals, objectives and milestones required to achieve those objectives and indicators used to measure the targets achievements.

Comment of the Management

No comments

Recommendation

The institute should be taken actions in accordance with the provisions of the Act.