

Sri Lanka Institute of Local Government - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Local Government for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement financial position, 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 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 institute as at 31 December 2021, 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 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 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 Centre'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 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 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. 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 Institute 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 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 Statements

1.5.1 Accounting Deficiencies

Non-compliance with the reference to relevant standard	Management's comments	Recommendation
a) A sum of Rs.1,982,765 course expenses to be spent for the previous years have been written off against the income of the year under review and the course income of Rs.3,319,875 receivable for the previous year has been adjusted to the financial statements as an income of the year under review, so the surplus of the year under review was overstated by Rs.1,337,110 in the financial statements.	I agree with the points indicated and the relevant adjustments will be made properly in the preparation of the financial statements for the coming year.	The income and expenses related to the year should be identified and financial statements should be prepared correctly.
b) While preparing the cash flow statement, the sum of Rs.865,700 related to 03 items to the cash flow from operating activities, and Rs.270,027 to the interest income from financing activities were not correctly adjusted.	In agreement with the matters pointed out by the audit, appropriate adjustments will be made in the preparation of future cash flow statements.	Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

1.6 Non-compliance with Laws, rules, regulations and management decisions etc

Reference to Laws, Rules, and Regulations	non-compliance	Management's comments	Recommendation
(a) Paragraph 3 of Part II of the Sri Lanka Institute of Local Government Act No. 31 of 1999	The Director should implement and fulfil the powers and tasks assigned by the Governing Council, but without the approval of the Governing Council, the Director had signed and implemented the Memorandum of Understanding with the United Nations Development Program on 07 September 2020.	Since the duration of this project will end in two years, this program has been implemented in consultation with the then Secretary of the Ministry and with the expectation of getting the approval of the then former Director when the Governing Council meets. Accordingly, information regarding this project has been submitted to the 169 th Governing Council held on 18 June 2021 and approval has been obtained.	The Director must obtain the approval of the Governing Council and proceed according to the provisions of the Sri Lanka Institute of Local Government Act.
(b) -Do-	A sum of Rs.12,138,421 had been spent on the project as of 31 August 2021, without the approval of the Governing Council.	-Do-	According to the provisions of the Sri Lanka Institute of Local Government Act, Payment should be made after obtaining the approval of the governing council.
(c) Section I of Chapter XXX of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	Contrary to the powers of the government regarding government officials, 08 officials in various positions were given assignments to prepare the	Procurement has been done subject to procurement guidelines. There the quotations have been called for the preparation of the modules and among those prices the lowest price has been submitted and the assignments have been	Action should be taken in accordance with the provisions of the Code the Establishment Code of the Democratic Socialist Republic of Sri

modules, for which given after checking their Lanka.
a sum of professional qualifications
Rs.460,000 was to prepare these modules.
paid.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 5,171,193 as against the deficit in the preceding year amounted to Rs. 2,688,580. Therefore an improvement amounting to Rs. 7,859,773 of the financial result was observed. The reasons for the improvement are mainly in the increase in special project income and course fee.

2.2 Trend analysis of major Income and Expenditure items

There is an increase in diploma course income by Rs.4,917,325 or 932 per cent, and special project income by Rs.19,387,510 or 835 per cent and there is an increase in special project expenditure by Rs.13,334,782 or 831 per cent, and diploma course expenditure by Rs.2,985,625 or 357 per cent.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation -----	Management's comments -----	Recommendation -----
<p>According to the facts revealed during the formal disciplinary investigation conducted against a driver of the company, it was pointed out under the directions for taking disciplinary orders in the investigation report that the company's internal auditor, along with the driver, committed a money fraud through fuel order forms. But regardless of that, according to the decision of the governing council held on 21 November 2017, the relevant internal audit officer was promoted. The said officer has resigned from the service of the company with effect from 01 June 2018 and since the gratuity amount due to him has not been paid, after he reported it to the</p>	<p>The 171st Governing Council decided to recover this surcharge from the then director who accepted the resignation of the former internal auditor.</p>	<p>Surcharge should be recovered from concerned responsible officers.</p>

Commissioner of Labour, a surcharge of Rs.117,322 was imposed due to non-payment of the gratuity amount of Rs.469,287 due to him on the due date and the entire amount was ordered to be paid. The said amount was paid on 27 February 2020 and the surcharge was not recovered from the responsible persons and this was shown under the institution expenses.

3.2 Operating Inefficiencies

Audit Observation -----	Management's comments -----	Recommendation -----
(a) Although a resource persons list consisting of 72 names had been prepared for the year 2020 for the training courses conducted by the institute, the approval of the Governing Council had not been obtained for it. Information about the methodology followed for identifying resource persons for preparing the resource persons list was not submitted to the audit.	Not answered	The approval for the resource persons list should be obtained from the governing council and a formal program should be launched to revise the resource persons list annually.
(b) It was observed that the IT department of the institute has maintained a separate list of resource persons and program officers have also participated as resource persons. Although if there are qualified program officers who can serve as resource persons, no proper system has been launched to include them in the list of resource persons.	Not answered	Training programs should be conducted by duly selected resource persons.
(c) Other persons not mentioned in the list of resource persons were engaged as resource persons for financial management, waste management and environmental conservation, engineering, legal, general management programs. They were people who had studied courses in the institute, accountants working in local government bodies, university professors and people who were connected in other ways.	Not answered	Training programs should be conducted by duly selected resource persons.

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| (d) | Officials of local government bodies are not selected for training programs in accordance with a formal system and in addition to the target group, irrelevant officials also participated. Due to the lack of a formal program to identify the training needs as well as to get the required officials to participate, it was observed that the same group participated in different training programs at the local government level. | Not answered | Training programs should be conducted for the target groups and a proper program should be launched in this regard. |
| (e) | The organizational chart of this institution, which is a training institution, was not prepared in a formal manner to comply with those objectives. A systematic organizational chart was not prepared in such a way that powers were delegated into new positions based on staff restructuring to achieve the organization's objectives | After solving the problematic situation of the new positions from the Management Services Department, a systematic organization plan is currently being prepared in such a way that the powers are delegated. | A systematic organization chart should be designed in such a way that the powers of the positions are divided. |
| (f) | The Institute of Chartered Accountants of Sri Lanka had introduced an accounting standard for local government bodies under the auspices of the State Ministry of Provincial Councils and Local Government Affairs. In order to implement this accounting standard at the provincial level, the local government ministers of Provincial councils of the nine provinces had to formulate rules. However, despite not being legally accepted in 7 provincial councils, training programs related to the new accounting system were conducted in the 7 provinces at a cost of more than Rs.50 million. | Not answered | Training programs for the accounting system should be conducted after the rules are formulated at the provincial level for the new accounting system and practical knowledge must be provided there. |

3.3 Defects in Contract Administration

----- Audit Observation -----	----- Management's comments -----	----- Recommendation -----
(a) For the construction of a 4-storey building for the institution, bids were invited in 2013, and a contractor was selected and an agreement was signed	A committee has been appointed to make recommendations for cancellation of the contract	The construction work of the institution's building should be

with the contractor for a sum of Rs.53,196,907 and the main contractor had outsourced the construction of the building's pile foundation to a subcontractor. Pile foundation was constructed sufficient for 4 storeys and by changing the plan it was decided to increase it to 8 storeys, and as the institution has accepted that it is not suitable to construct the building on this pile foundation, the amount of Rs. 44,757,072 spent on this was a fruitless expenditure.

as the reports of the Central Engineering Consultancy Bureau have been received.

inspected and legal proceedings should be taken to recover the losses incurred by the government.

(b) The Central Engineering Consultant Bureau had been appointed to check the condition of the pile foundation, and in the year under review, a sum of Rs.918,000 had been paid, without confirming that the intended purpose has been achieved from the report given by the said institution.

According to paragraph 5 (1) of the Sri Lanka Institution of Local Government Act No. 31 of 1999, the responsibility for the affairs, administration and management of the institution is transferred to the governing council, so payments have been made as approved by the governing council decision of 169/15.

Officials approving and certifying payments should discharge their responsibilities properly.

3.4 Human Resource Management

Audit Observation

Management's comments

Recommendation

(a) A sum of Rs.513,000 had been taken in excess by the director for the period from February 2020 to August 2021 as he had received a monthly salary of Rs.114,645 which was the 10th salary step of that salary code without receiving 1st salary step in the HM 2-2 salary code prescribed by the Treasury.

It was decided in the 171st Governing Council meeting to recover the excess salary received by the former director. Accordingly, proceedings are being done.

The overpaid salary should be recovered.

(b) The revision of the recruitment procedure related to absorption and recruitment of staff for the new posts created through staff restructuring was not done till 15 June 2022.

This will be done expeditiously after preparation of SOR / SOP for new posts from SLIDA and after obtaining the approval of the Department of Management Services.

The amendment should be done promptly and properly.

- (c) Although the Department of Management Services letter dated 26 March, 2019 had indicated to update the approved staff, the existing 2 posts of Deputy Director were not absorbed into the AR-2 posts. This will be done expeditiously after preparation of SOR / SOP for new posts from SLIDA and after obtaining the approval of the Department of Management Services. Absorption of officers and appointment to new posts should be completed.

4. Accountability and Good Governance

4.1 Tabling of Annual Reports in Parliament

Audit Observation	Management's comments	Recommendation
According to Section 11 (3) of the Finance Act No. 38 of 1971, the Minister should table the annual report within 10 months after the end of the accounting year, but the reports of the institution for the years 2019 and 2020 had not been tabled even though 30 months and 18 months had lapsed respectively.	Not answered	The provisions of the Act should be followed

4.2 Budgetary control

Audit Observation	Management's comments	Recommendation
(a) According to section 8 of the Finance Act No. 38 of 1971, every Government Corporations must prepare a budget not more than 03 months before the start of the relevant financial year and approve it by the governing council, but the governing council had not approved a budget for the year 2021.	Since the Governing council meetings were not held from November 2019 to May 2021, it was not possible to get the approval of the Governing council for the 2021 budget.	Rules and regulations should be followed. Expenses should be managed according to an approved budget.
(b) As the Governing council did not meet and approve the budget for the year 2021, the recurrent expenses and capital expenses of Rs.36,680,000 and Rs.3,100,000 respectively could not be accepted as expenses incurred legally with due authority.	Covering approval of the budget document for the previous period and pre-approval for the period from June onwards had been obtained.	After the annual budget is approved by the governing body, the expenditure of the year shall be incurred.

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| (c) | The attention of the Governing Body was not drawn to Annexure A mentioned in paragraph 9 of the Circular No. PED 01/2020 of the Secretary of the Ministry of Finance and Economic Policy Development Regarding the Board of Governors not approving a budget document for the year 2021. | Not answered | Action should be taken as per circular instructions. |
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4.3 Environmental Issues

Audit observation	Management's comments	Recommendation
(a) Environmental and social responsibilities related to the organization were not identified.	(a), (b). Through the training needs analysis conducted by the institute, the needs of environmental and social responsibility were identified and accordingly training programs were organized for the year 2020 regarding waste separation, recycling and related technology. Training programs could not be held this year due to covid 19.	Should be done accordingly.
(b) Although waste management is one of the main activities of local government institutions, no training program or workshop related to it had been implemented by the Sri Lanka Institute of Local Government.	-Do-	Necessary training programs should be conducted.

4.4 Sustainable Development Goals

Audit observation	Management's comments.	Recommendation
Due to the fact that the Sri Lanka Institute of Local Government has not been aware of the 2030 Agenda regarding Sustainable Development Goals, the sustainable development goals, targets and milestones to reach those goals and the indicators to measure the achievement of the goals had not been identified.	The media department of this institution conducted drug prevention and women empowerment workshops for the Western Province, and in general, sustainable development objectives are directly covered by all departments through various training workshops and through the knowledge imparted and updated through the training workshops as well as the skills improved, it has been arranged to provide the necessary guidance to reach other sustainable development goals.	The organization should work according to the agenda of the United Nations.