

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka Institute of Local Government (“Institute”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 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 2022, 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 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 Institute’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 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 Non-compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-compliance with the reference to relevant standard</b>	<b>Management's comments</b>	<b>Recommendation</b>
a) While preparing the cash flow statement, the sum of Rs.3,311,298 related to 04 items was not correctly adjusted to the cash out flow from operating activities as per Sri Lanka Public Sector Accounting Standard 02.	The tax amount of Rs.1,185,431 provisioned for the assessment year 2022/23 and the adjusted amount of Rs.578,403.02 for the previous assessment year 2021/22 born in 2022 have been adjusted and proper arrangements will be made to adjust the amount to be refunded to the treasury.	Financial statements should be prepared accurately according to Sri Lanka Public Sector Accounting Standards.
b) Over-provision of expenses amounting to Rs.459,865 in the previous year was adjusted to the accumulated fund without conforming to the paragraph 41 of Sri Lanka Public Sector Accounting Standard 03. Accordingly the profit of the year under review was understated.	As the expenditure related to the year 2021 is written-off, the related adjustment was not made in the year 2022.	-Do-

## 1.5.2 Accounting deficiencies

<b>Audit observation</b>	<b>Management's comments</b>	<b>Recommendation</b>
Rs.450,000 paid to the committee appointed to report the irregularities in the construction of the new office building complex to be shown under administrative expenses was shown as work in progress.	The related work can be considered as a consultancy work. Accordingly, relevant adjustments have been made according to the provisions of Sri Lanka Public Accounting Standard No. 07.	Transactions should be correctly entered in the financial statements.

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

<b>Reference to Laws, Rules, and Regulations</b>	<b>Non-compliance</b>	<b>Management's comments</b>	<b>Recommendation</b>
(a) Paragraph 3.2(v) of the Operational Manual of Public Enterprises Circular 01/2021 dated 16 November 2021	Although the incentive scheme had to be approved by the Director General of the Department of Public Enterprises, the officials were paid Rs.4,800,000 as allowances from the institution's contribution to the training programs conducted by the United Nations Development Program in the years 2020, 2021 and 2022 without following those instructions.	Based on the letter addressed to the General Treasury in the 178th Governing Council meeting held on 26.12.2022, the Governing Council had given approval in this regard.	Approval should be obtained as per the circular.
(b) Paragraph 2 of 01 the Public Enterprises Circular PED/09/2022 dated 21 December 2022	Rs.145,000 was paid in excess contrary to the provisions of this circular during the payment of bonus for the previous year made in the year under review.	Approval was given in the 178th Governing Council meeting held on 26.12.2022 to pay bonuses of Rs.25,000 each to 29 staff members based on 03 basic criteria.	Payments should be made as per circulars.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs.2,079,104 and the corresponding surplus of the previous year was Rs.5,171,193. Accordingly, a deterioration of Rs.3,092,089 was observed. The reasons for the decline were mainly in the decrease of special project revenue by Rs.9,578,451 and certificate course income by Rs.1,401,075 .

### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Management's comments</b>	<b>Recommendation</b>
Due course fees amounting Rs.1,571,250 related to 04 courses since 2017 had not been settled.	The relevant adjustments will be made in the year 2023.	Due course fees should be settled.

#### 3.2 Defects in Contract Administration

<b>Audit Observation</b>	<b>Management's comments</b>	<b>Recommendation</b>
(a) For the construction of a 4-storey building for the institution, bids were called in 2013, and a contractor was selected and an agreement was signed with the contractor for a sum of Rs.53,196,907. Although Rs.38,147,381 was paid to a subcontractor for the construction of the pile foundation of the building, the institution had accepted that the construction of the building on these piles was not suitable due to the change in the original plan to increase the number of floors up to 08. Therefore, the amount of Rs.44,757,072 incurred for this purpose remains idle.	The Secretary of the Ministry of Provincial Councils and Local Government has appointed a committee consisting of three experts in the field on 18.04.2022 and they have prepared a complete report related to the construction and hand overed it to the Ministry. Arrangements are being made to submit it to the Cabinet in the future.	Actions should be taken to recover the losses incurred by the Government.

#### 3.3 Human Resource Management

<b>Audit Observation</b>	<b>Management's comments</b>	<b>Recommendation</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 31 December 2022.	Due to the rejection of the new recruitment procedure by the Department of Management Services, necessary arrangements are being made to negotiate with SLIDA again.	The amendment should be done promptly.

#### **4. Accountability and Good Governance**

##### **4.1 Annual Reports**

<b>Audit Observation</b>	<b>Management's comments</b>	<b>Recommendation</b>
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. However the reports of the institution for the years 2020 and 2021 had not been tabled.	Annual reports for the year 2020 are being prepared.	The provisions of the Act should be followed.