

Sri Lanka Institute of Local Governance- 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Local Governance for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 the Finance Act, No.38 of 1971. My comments and observations which I consider should be reported 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 Institute as at 31 December 2024, and its financial performance and 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 based 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 determines 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 intends 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 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 Audit

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 audit 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 audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. 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 is 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 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 Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the relevant Standard	Management's Comments	Recommendation
(a) In terms of paragraph 53 of Sri Lanka Public Sector Accounting Standard 01, comparative information shall be disclosed in respect of the previous period for all amounts reported in financial statements. However, comparative information in respect of the previous period had not been disclosed in the cash flow statement and the statement of changes in net assets.	In the preparation of financial statements, the values relating to the year 2023 had not been included in the cash flow statement and the statement of changes in net assets by mistake and, this error will be rectified in the preparation of financial statements for the year 2025.	In terms of Sri Lanka Public Sector Accounting Standards, comparative information should be included in the preparation of financial statements.
(b) In terms of paragraph 21 of Sri Lanka Public Sector Accounting Standard 10, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery	The details relating to the revenue to be further recovered of the receivable sum of Rs.1,541,250 are being examined and action is being taken to make future adjustments accordingly.	In terms of Sri Lanka Public Sector Accounting Standards, provision for bad debts should be made for balances of uncertain recovery.

has ceased to be probable, should be recognized as an expense. Even though an uncertainty existed on the recovery of revenue of Rs.1,541,250 identified relating to 04 courses during the period from the year 2017 up to the year 2021, no provision for bad debts had been made therefor.

1.5.2 Accounting Deficiencies

	Audit Observation	Management's Comments	Recommendations
(a)	The Institute had recorded its transactions without using the journal vouchers which should be basically used for recording transactions in the financial reporting process. As a result thereof, authority for transactions as well as supporting documents have not been made available to Audit. Thus, the accuracy of transactions was not confirmed in Audit.	Certain items in the ledger had not been accounted separately as journal entries and the relevant entries were entered in preparing the trial balance and in entering journal entries into the TALLY Computer System, the journal vouchers could not be properly prepared and could not be approved with relevant schedules.	Financial statements should be prepared within a generally accepted specific financial reporting process.
(b)	The interest income of Rs.2,005,411 relating to the period from 01 January 2024 up to 27 May 2024 for a fixed deposit of Rs.50,000,000 had not been accounted for.	Necessary steps have been taken to rectify this financial error in the preparation of financial statements in future.	The investment interest relating to the period should be accurately accounted for.
(c)	There had been a difference of Rs.3,532,881 in the comparison of vehicle repair expenses, project expenditure on the United Nations Development Programme, salaries and allowances of the Director and provision for gratuity shown in the financial statements, with the schedules submitted therefor.	The salaries and allowances of the Director totalling Rs.2,662,829 shown in the financial statements comprises the total of basic salary and allowances amounting to Rs.1,493,808 and the total of transport allowance and fuel allowance amounting to Rs.1,169,021. The balance money of Rs.3,433,947 of the UNDP	The information in the financial statements should correspond with the details of the schedules submitted.

special project has been settled and the said institute too has accepted that it is correct.

1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management's Comments	Recommendation
(a) Section 6.6.of the Operational Manual introduced by Public Enterprises Circular No.01/2021 of 16 November 2021.	The annual report relating to a particular year should be tabled in Parliament within 05 months after the end of the financial year. However, the annual report of the year 2023 had not been tabled.	The translation of the annual report of the year 2023 is in the final stages and it will be tabled in Parliament very soon.	Action should be taken to table in parliament annual reports before the due date.
(b) Section 4.2 (h) of the Guidelines for Public Enterprises introduced by Public Enterprises Circular No.01/2021 of 16 November 2021.	Even though an Audit and Management Committee meeting should be held at least once in three months, only one Audit and Management Committee meeting had been held in the year 2024.	As there was a delay in appointing members for the Governing Council, members for the Audit and Management Committees could not be appointed.	Action should be taken to hold Audit Committee meetings in terms of Public Enterprises Circular.

2 Financial Review

2.1 Financial Results

The operations of the year under review resulted in a deficit of Rs.6,052,037 as against the surplus of Rs. 2,795,448 for the preceding year thus observing a decline of Rs. 8,847,485 in the financial result. Even though the administration and institutional expenditure has decreased by Rs.8,394,082, the decrease in the Government contribution by Rs.14,243,000 had mainly attributed to this decline.

3 Operational Review

3.1 Operational Inefficiencies

Audit Observation	Management's Comments	Recommendation
(a) In terms of the Act by which the Institute was established, training courses should be conducted and consultancy	Capital contributions for the year 2024 had not been received and a number of nearly 180 programmes included in the Action Plan for the	Plans should be prepared considering the practical situations and

and research be carried out to enable discharge of duties more efficiently and effectively towards members, officers and employees of local authorities. However, of the 217 activities included in the Action Plan prepared therefor, only 43 activities have been performed during the year under review.

Activities relating to consultancy and research had not been performed even within the activities so performed.

(b) Even though this is the main institute which conducts training programmes for officers of local authorities, a detailed data system had not been maintained relating to conducting of training programmes. Moreover, no proper method had been followed for identifying training requirements and selecting officers for training programmes.

year 2024 had been planned to be carried out with capital contributions. Nevertheless, action has been taken in the year 2024 to generate income to the Institute from training programmes conducted by officers of the Institute charging money.

programmes should be implemented as planned.

Bringing information of all divisions to a single information system has been discussed at Audit and Management Committee meetings and the attention of the management as well has been drawn towards same.

A proper information system relating to conducting of training programmes should be maintained and a proper coordination should be maintained between divisions. A proper method should be followed for identifying training requirements and selecting officers for training programmes.

3.2 Delays in Projects or Capital Works

Audit Observation	Management's Comments	Recommendation
<p>It has been decided to increase the number of floors in a construction plan of a four storeyed building of which constructions have been commenced in the year 2013, to 8 storeys. However, the constructions had been abandoned as it was not suitable to construct a 08</p>	<p>The contract which was entered into for constructing this building, has been terminated and further activities thereof are being carried out by the line Ministry.</p>	<p>Action should be taken to inspect the constructions of the Institute's building and recover the losses incurred to the Government and to complete constructions and make use of it.</p>

storeyed building on the foundation and support beams constructed at the time. As such, the expenditure of Rs. 46,275,072 incurred for the said constructions and relevant retentions of 00 were being carried forward as work-in-progress under non-current assets and as non-current liabilities respectively in the statement of financial position for a period of 11 years.

3.3 Human Resource Management

Audit Observation	Management's Comments	Recommendation
<p>The approved cadre of the Institute was 50 and there were 25 vacancies in the cadre as at 31 December of the year under review. There were 9 vacancies of the 13 approved posts of Senior Level. Moreover, officers with qualifications for performing the functions of consultancy and research had not been recruited to the Institute.</p>	<p>Future action is being taken relating to official discussions and obtaining approval required for filling the vacancies in the cadre of the Institute.</p>	<p>An optimum cadre should be maintained by timely reviewing the requirement of cadre.</p>

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Management's Comments	Recommendation
<p>Even though the budgetary income from courses had been Rs.27,320,000 for the year under review, the actual income was Rs. 7,596,637 thus creating a variance of Rs. 19,723,363 representing 72 per cent. Moreover, the budgeted value of 10 items of expenditure was Rs.62,255,000 and as the actual value thereof</p>	<p>Even though applications were called by each division for conducting courses estimated for the year, due to non-receipt of adequate applications and the dearth of the staff of the Institute, courses could not be conducted as planned.</p>	<p>Action should be taken to earn budgetary income.</p>

was Rs.9,819,811, the variance was ranging from 51 per cent up to 99 per cent. As such, the budget **had not been made use of** as an instrument of financial control or a guideline in achieving targets.