

Sri Lanka Institute of Local Governance -2014

The audit of financial statements of Sri Lanka Institute of Local Governance for the year ended 31 December 2014, comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). 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 judgement, 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’s 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 Institute’s internal control. 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 2014 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 Policies

Although the assets purchased under the Government and other grants had been depreciated annually, the Institute had not introduced a policy for the amortization of those assets. The total capital grants as at the end of the year under review was Rs.88,486,678 and the net value of the assets derived from it amounted to Rs.69,909,841.

2.2.2 Accounting Deficiencies.

The following observations are made.

- (a) The land and the building received by the Institute as a Government grant had not been assessed and brought to account.
- (b) Although the Institute had granted furniture and fittings valued at Rs.213,300 to the Kandalama Circuit Bungalow maintained under the Ministry of Local Government and Provincial Council, it had further been shown in the financial statements as the assets belonging to the Institute.
- (c) Although there was an abnormal credit balance of Rs.52,811 in the Employees Loan Account, action had not been taken to settle it.

2.2.3 Unreconciled Control Account

In connection with 03 items of accounts, a difference amounting to Rs.2,186,057 was observed between the balance of the account and the balance of the schedule made available to audit.

2.3 Accounts Receivable

- (a) It was observed in the examination of the payments made for the diaries printed by the Institute that, a sum of Rs.492,000 receivable for the diaries obtained by the Ministry had not been received by the Institute even as at 24 July 2015.
- (b) Action had not been taken to recover the advances of Rs.44,657 and Distress Loan of Rs.771,825 remained receivable from the officers since the period prior to the year 2010.

2.4 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) Part iii of the Finance Act, No.5 of 2005 and Finance Act, (Amendment) No. 18 of 2009.	Action had not been taken to recover the Construction Work Security Funds Tax amounting to Rs.190,736 relating to a sum of Rs.38,147,382 paid for the contract of the construction of new building up to 31 December of the year under review.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 371	(i) It was observed that periods ranging from 45 to 351 days had been taken to settle the advance of Rs.204,000 granted in 16 instances. Although the imprest granted should be settled before 31 December of the financial year during which the imprest is granted, 03 advances amounting to Rs.33,000 had not been so settled.
	(ii) Due to the grant of advances without any plan, 43 instances of savings and settling of half or approximate amount of the expenditure, instances of granting advances before the settlement of advances paid in advance and 10 instances of settling advances without incurring any expenditure were observed.
(ii) Financial Regulation 571	Action had not been taken either to settle or taken into the revenue of 14 bid deposits amounting to Rs.57,250 from the year 2002 to 2010.
(iii) Financial Regulation 756 and 757	A physical verification had not been carried out for the establishment of the existence of the Library books, stationary and publications valued at Rs.295,948, Rs.438,382 and Rs.1,581,988 respectively.

2.5 Transactions not Supported by an Adequate Authority.

The following observations are made

- (a) In paying allowances in addition to the salary according to the Circular No. PF/PE/5 dated 11 January 2000 of the General Treasury, without being obtained the approval of the Cabinet of Ministers or the Ministry of Public Administration or the Treasury, incentive amounting to Rs.307,522 had been paid to the staff including the Director for the year under review out of the balance money of the United Nations Human Settlements Programme on the approval of the Board of Directors.
- (b) Having recruited a Media Advisor to a post not included in the cadre approved by the Department of Management Services on 21 February 2000 and 11 January 2013 on contract basis, an incentive of Rs.10,000, an annual salary of Rs.669,600 and a sum of Rs.120,000 at the rate of Rs.10,000 as holiday pay in respect of 5 days in each month had been paid during the year under review without being established any written evidence on the arrival and departure of the officer. Further, payment of Rs.33, 170 had been made for the telephone charges for the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the year under review was a deficit of Rs.2,502,704 as compared with the corresponding deficit of Rs.8,575,023 for the preceding year, thus indicating an improvement of Rs.6,072,319 in the financial results of the year under review as compared with the preceding year. The increase in operating income by Rs.9,806,810 had mainly attributed to the above improvement.

4. Operating Review

4.1 Performance

A sum of Rs.20,000,000 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.21,466,810 had been spent in this regard during the year under review, it was observed in the examination carried out in that regard that the Institute had not achieved the performance as planned and there were discrepancies between the progress reports and the planned activities in each division. Details are given below.

- (a) Out of 32 programmes planned by the Engineering Division 02 programmes had not been conducted and one programme of which was the Diploma in Local Government Engineering. Out of Rs.400,000 allocated for the training programmes at the Provincial Council level, only two programmes had been conducted by incurring a sum of Rs.194,016.

- (b) Out of the 24 programmes planned by the General Management Division, only 21 programmes had been conducted. Although the estimated participants were 1,170 trainees, only 711 individuals had been trained. Accordingly, it was observed that the approximate expenditure incurred per person had been Rs.2,620. Although it had been planned to conduct a certificate course in Human Resource Management in this division, it had not been conducted.
- (c) In terms of the Sri Lanka Institute of Local Governance Act, undertaking the external assignments is an objected function of that Institute. In order to perform such function included in the Action Plan of the Institute, the officers of the Sri Lanka Institute of Local Governance had been paid various allowances (Overall supervision, supervision and participation, coordination allowances, Secretarial allowances, audit allowances, accounting allowances, clerical allowances and K.K.S. allowances) amounting to Rs.279,700 without being obtained the proper approval of the Secretary to the Treasury in accordance with the Treasury Circular No.PF/PE/5 dated 11 January 2000.
- (d) Even though a sum of Rs.2,400,000 had been provided for the Financial Management Division according to the Action Plan of the year under review, an Action Plan had not been prepared so as to cover that provision. The one year Diploma Course in Local Government Financial Management -2012/2013 should have been commenced at the end of the year 2012 and completed in 2013, whereas it had been conducted up to June 2014 for 11 days. Out of Rs.400,000 allocated for the conduct of training programmes at Provincial Council level, one programme had been conducted by incurring a sum of Rs.24,600.
- (e) The number of programmes planned by the Legal Division was 21, whereas 39 programmes had been conducted and a sum of Rs.1,179,460 exceeding the allocated amount of Rs.2,000,000 had been spent.
- (f) The number of programmes planned by the Research Division was 24, whereas 27 programmes had been conducted and a sum of Rs.227,504 exceeding the allocated amount of Rs.2,000,000 had been spent.
- (g) A difference amounting to Rs.4,093,887 was observed between the expenditure indicated in the Expenditure Account and the relevant progress reports relating to 09 training programmes.

4.2 Management inefficiencies

According to the Board of Survey report, assets valued at Rs.2,398,282 had not been verified at the physical verification. Further, assets valued at Rs.1,219,592 were being utilized by each division of the Institute, but those had not been entered in the Register of Assets.

4.3 Operating inefficiencies

The following observations are made.

- (a) A Mobilization Advance of Rs. 10,639,382 of the contract of the construction of new building of the Sri Lanka Institute of Local Governance had been granted to the contractor and the Advance Bond and the Performance Bond of Rs.2,660,000 produced in that respect had expired on 01 December 2014. Nevertheless, the Institute had not taken action either to extend or obtain a new bond even by 25 June 2015.
- (b) As the Sri Lanka Institute of Local Governance and the Ministry of Provincial Council and Regional Development had prepared future plans without carrying out a proper study, the contract agreement entered into for the construction of 04 floors at Rs.53 million on 28 November 2013 had been subsequently increased up to Rs.98 million and as such the price variation by 85 per cent could be observed. This building which was scheduled to be completed by 30 September 2014 had not been completed even by June 2015 and having laid the foundation on completion of the piling works only the pillars had been built up.

4.4 Idle and under Utilized Assests

According to the Board of Survey reports it was revealed that, assets valued at Rs.3,212,800 of the Institute had remained idle.

4.5 Identified Losses

The following observations are made.

- (a) It was observed that a paper advertisement had been published at a cost of Rs.279,966 in order to recruit officers for the posts of Accountant, Administrative Officer, Receptionist and officers for research and studies of the Institute. Nevertheless, any officer had not been recruited.
- (b) In order to develop a website valued at Rs.311,000 a sum of Rs.77,500 had been paid to a private institute on 28 October 2014, whereas necessary action for the completion of the website had not been taken even by 25 June 2015 and as such the amount paid had become a fruitless expenditure.

4.6 Personnel Administration

Even though the approved cadre of the institute as at 31 December 2014 was 48, the actual cadre was 37. Accordingly, the number of vacancies was 11 .

5. Accountability and Good governance

5.1 Presentation of Financial Statements.

In terms of the Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements should be furnished to audit within 60 days after the year of accounts, whereas the Institute had furnished the financial statements of the year under review to audit on 14 May 2015.

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 end of June 2015.

- (b) A sum of Rs.100,000 exceeding the property loan amounting to Rs.1,447,800 applied by an officer had been paid in the year 2010.

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