

Sri Lanka Institute of Local Governance - 2015

The audit of financial statements of Sri Lanka Institute of Local Governance for the year ended 31 December 2015, 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 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 2015 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 Deficiencies

The following observations are made.

- (a) Even though a sum of Rs.123,000 obtained as advances for printing diaries and advances for human resources development amounting to Rs.391,117 and Advances for petty cash amounting to Rs.30,000 had been settled as at 31 December 2015, those had been stated as advances further recoverable.
- (b) A sum of Rs.186,259 received from the UN Habitat had been credited to the Projects Contribution Account instead of crediting to the Other Income Account.

2.3 Accounts Receivable and Payable

- (a) It was observed in the examination of payments for the diaries published by the Institute that the sum of Rs.492,000 receivable for the diaries obtained by the Ministry of Provincial Council and Local Governance had not been received by the Institute even by 30 June 2016.
- (b) The Institute had failed to recover advances amounting to Rs.44,657 and the distress loans amounting to Rs.455,664 recoverable from the officers from periods prior to the year 2010 even by the end of the year under review.
- (c) Action had not been taken to settle the unusual credit balance amounting to Rs.52,811 that remained in the Staff Loan Account as at 31 December 2015.

2.4 Non- compliance with Laws, Rules, Regulations and Management Decisions

The following non- compliances were observed.

Reference to Laws, Rules and Regulations

Non- compliance

(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka

Section 4.1 of Chapter XIV

Instances where the combined allowance had also been paid for those days on which food and hostel fees had been provided at the expense of the Institute for the officers who participated for Seminars were observed in the audit test.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 264

Even though a receipt should be obtained ensuring that the gross amount mentioned in the voucher relating to all payments is received, 6 instances of payments valued at Rs.138,137 made without such compliance were observed.

(ii) Financial Regulation 371

- Twenty instances of settling a half or an amount approximate to a half saved from Advances issued were observed.

- Even though Advances granted should be settled before 31 December of the Financial Year of which they were issued, 02 Advances amounting to Rs.50,360 granted in the year under review had not been so settled.

2.5 Transactions not supported by Adequate Authority

Even though additional allowances and the financial benefits of other types can be paid to the employees of Statutory Bodies only on the approval either of the Cabinet of Ministers or of the Ministry of Public Administration or of the Treasury in terms of the Public Enterprises Circular No.95 of 14 June 1994, contrary to that miscellaneous allowances amounting to Rs.193,750 had been paid to the officers of the Institute in the year under review for the assigned functions of consultancy level provided by the UN Habitat and by the Disaster Management Centre (DMC Project) on the approval of the Board of Directors.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the year under review had been a deficit of Rs.1,927,273 as compared with the corresponding deficit of Rs.2,502,704 for the preceding year, thus indicating a decrease in the deficit of Rs.575,431 in the financial result for the year under review as compared with the preceding year. Even though other income had decreased by a sum of Rs.4,924,153, the increase of recurrent grants by a sum of Rs.5,692,000 had been the main reason for the above increase in the deficit.

An analysis of the financial results of the year under review and 4 preceding years indicated that, the surplus of the Institute amounting to Rs.2,882,054 in the year 2011 had converted to a deficit of Rs.1,927,273 in the year 2015. In considering personal emoluments and depreciation on non-current assets, the contribution of the Institute amounting to Rs.20,668,188 in the year 2011 had increased subject to fluctuations to Rs.29,788,488 by the end of the year 2015.

4. Operating Review

4.1 Performance

Conducting Seminars and training courses to enable the members of Provincial Councils and Local Authorities, officers and employees to execute their duties effectively and efficiently is a function of the Institute and a sum of Rs.20,000,000 had been allocated by the Annual Budget for 8 Divisions. Even though a sum of Rs.19,597,500 had been spent for this in the year under review, it was observed that the performance planned by the Institute had not been done and differences between the Progress Reports and planned performance each Division were observed during an examination. Details are as follows.

(a) General Management Division

In the conduct of programmes, five programmes more than the expected programmes and 7 programmes less than the expected programmes had been held. Even though, the participation expected according to the plan, had been 1670, the actual participation had been 1834

(b) Research Division

Even though it was planned to conduct 18 programmes on the Supervision Process on increasing the revenue of regressive Local Authorities, only 9 programmes had been held. The estimated amount had been a sum of Rs.2,400,000 for this Division and the money saved had not been sufficient for holding 9 remaining programmes as the financial progress amounted to Rs.2,190,538. Programmes had not been held as planned and attention had not been paid towards the management of expenditure.

(c) Engineering Division

All programmes had been conducted less than the amount of targeted programmes in this Division. Four out of 9 programmes on Development of Knowledge and Competency of Technical Officers, 1 out of 6 programmes on Knowledge Development of work supervisions, 3 out of 6 Technical Training Courses for the staff relating to Contract Administration of Local Authorities, 2 out of 4 programmes on Performance Development of engineering criteria, 2 out of 4 programmes on updating the rural roads system and 1 out of 3 special training programmes had not been held. Even though more than half of the programmes had not been held, the Financial Performance of the allocated estimate amounting to Rs.2,400,00 had been Rs.2,333,630.

(d) Financial Division

Only 03 programmes of the Financial Management Division had been included in the Action Plan and even the Diploma Certificate Course had not been conducted due to not having a Financial Consultant for about one year. Even though Rs.1.2 million had been allocated for 6 programmes on the preparation and the presentation of financial statements in terms of Sri Lanka Public Sector Accounting Standards only 02 programmes had been held by spending a sum of Rs.550,013. A sum of Rs.800,000 had been allocated for 4 programmes on Financial Management of the Local Authorities and 8 programmes had been conducted by spending a sum of Rs.1,623,682. Even though a sum of Rs.400,000 had been allocated for Provincial Level Programmes, a sum of Rs.791,554 had been spent. It was observed that action had not been taken within the allocated estimate limit for this Division.

(e) Legal Division

The programmes of drafting Statutes and implementation, introduction of laws relating to the Local Authorities, providing guidance relating to legal problems of the Local Authorities had not been held.

4.2 Management Activities

A sum of Rs.77,500 had been paid to a private institution on 28 October 2014 as an advance for creating a website valued at Rs.311,000 and the money paid as the advance had become a fruitless expenditure due to not taking necessary action to complete it even by 31 December 2015.

4.3 Operating Activities

Sri Lanka Institute of Local Governance and the Ministry of Local Government and Provincial Councils had prepared future plans without conducting a proper study of the future requirements and as such the contract agreement of Rs.53 million entered into on 28 November 2013 for four floors of the building proposed for construction in the premises of the Sri Lanka Institute of Local Governance had to be increased to Rs.98 million subsequently thus resulting in a price variance of 85 per cent. This agreement entered into on 30 December 2014 for the new contracted. A sum of Rs.98 million had lapsed in August 2015 and as at that

date, piling and foundation work had been completed and columns had been built at a cost of Rs.44,757,072.

4.4 Staff Administration

The approved cadre and the actual cadre of the Institute as at 31 December 2015 had been 59 and 40 respectively and the number of vacancies and the number of excess cadre had been 23 and 4 respectively. The Institute had to face difficulties in conducting Seminars due to the Staff Grade posts of the Consultants remaining vacant.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements.

Even though Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, stipulates that financial statements should be furnished to audit within 60 days after the close of the year of accounts, the Institute had furnished the financial statements of the year under review to audit only on 01 August 2016.

5.2 Unresolved Audit Paragraphs

According to the decision of the Committee on Public Enterprises held on 05 March 2014, it was stated that the covering approval of the Treasury should be obtained for the bonus paid in the year 2011 and thereafter. However, such an approval had not been obtained even by the end of June 2015.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the attention of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observations

(a) Advances

Excessive advances had been granted without estimating the money necessary for the relevant activity.

(b) Staff Loans

The Institute had failed to recover the outstanding loans.

(c) Conducting workshops and the payment of allowances

Conducting programmes more than and less than the expected number in conducting programmes in the Action Plan and the payment of sundry allowances for the work of external assignments on the approval of the Board of Directors.