

Sri Lanka Institute of Local Governance – 2017

The audit of financial statements of the Sri Lanka Institute of Local Governance for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017, 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. A detailed report in terms of Section 13 (7) (a) of the Finance Act was sent to the Chairman of the Institute on 20 July 2018.

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 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 misstatement 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 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 the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and 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 2017 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

The following observations are made.

- (a) The accounting policy in respect of government capital grants had not been disclosed in the financial statements amounting Rs.508,434,195 appeared in the statement of financial position.
- (b) Even though it had been decided the values which were not material transferred by the Ministry of Provincial Councils and Local Governance by the accounting policy under the Note 1 submitted with the financial statements not to bring into accounts, the limit of the materiality level had not been identified.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Although the understated depreciations made in the preceding year with regard to the computer and accessories amounting Rs.75,347 should be adjusted to the prior year profit for the corrections of the computations, as the adjustments made to the profit in the current year the profit of the year had been understated by the same amount.
- (b) The value of the 10 computers amounting Rs. 839,000 provided in the year under review by the North East Local Governance Institutions and Services Development Project (NELSIP) had not been brought to accounts.

(b) Treasury Circulars

(i) Circular No. 842 of 19 December 1978

A Register of Fixed Assets had not been maintained by the Institute.

(ii) Circular No. IAI/ 2002/ 02 of 28 November 2002

A Register of Fixed Assets had not been maintained in respect of the computers, accessories and software.

(c) Paragraph 1.2.1 of Procurement Guidelines 2006

Three people had been selected for a 03 research study contracts valued at Rs.3,110,500 out of the proper procurement procedure in the year under review.

(d) Public Administration Circulars

(i) Circular No. 30/ 2016 of 29 December 2016

Fuel consumptions of the vehicles had not been examined.

(ii) Circular No. 26/92 (1) of 08 March 1994

Government Emblem and the name of the Institute had not been displayed on the vehicles used for official duties.

3. Financial Review

3.1 Financial Results

According to financial statements presented the financial result of the Institute for the year under review had been a surplus of Rs. 5,411,945 and as against the deficit of Rs. 4,805,575 for the preceding year thus indicating an improvement of Rs. 10,217,520 in the financial results for the year under review as compared with the preceding year. Increase of special project income by Rs. 9,524,436 and the decrease in the administrative expenses by Rs. 735,384 had mainly attributed to the increase of the above growth.

In analyzing the financial results of the year under review and 04 preceding years the remained deficit of the Institute amounting Rs. 8,575,023 in the year 2013 had increased to a surplus of Rs. 5,411,945 by the year 2017 . However, in considering the re-adjustments of the employees remuneration and the depreciation for the non-current assets to the financial result , the contribution of the Institute amounted to Rs. 16,721,542 in the year 2013 had been Rs. 37,685,852 by the end of the year 2017 being subject to fluctuations.

4. Operating Review

4.1 Performance

4.1.1 Planning

Even though an Action Plan had been prepared and furnished to audit for the year 2017 by the Institute, it had not been prepared consisting of the information mentioned in the Section 04 of Public Finance Circular No. 01/ 2014 of 17 February 2014. Similarly, a methodology which could be timely checked the progress of achieving the activities mentioned in the Action Plan furnished to audit had not been maintained by the Institute.

4.1.2 Activity and Review

Twenty two training programmes consisted in the Action Plan in the year under review had not been implemented during the year .

4.2 Management Activities

The following observations are made.

- (a) Although the Additional Directress and the Engineering Consultant, the two Executive Officers of the Institute who had been subjected to a formal disciplinary inquiry in respect of a cash fraud, had been attached to the Line Ministry from the month of January 2016 and a sum of Rs. 1,534,320 had been paid as salaries and allowances for the year 2017 for these two officers . Even though the contribution for these two officers was 16 per cent out of the total employee remuneration of the Institute amounted to Rs. 11,597,372 , any contribution had not been obtained from these officers to the performance of the Institute from the date of appointment.
- (b) The Case No. SCFR 233/ 2017 had been filed at the Supreme Court against stopping of the transport allowances and the telephone allowances of the accused officers assigned to the Line Ministry and a sum of Rs. 375,000 had been paid by the Institute as lawyer charges to appear for this by now.
- (c) The following observations are made in respect of a cash fraud occurred in the year 2012.
 - (i) The Board had decided on 21 July 2017 based on the formal disciplinary examination to suspend the service of the driver and also to recover the money receivable to the government from the accused driver in respect of a cash fraud occurred in the year 2012 .

- (ii) Even though it had been mentioned that the date of the punishment to a convicted officer was the date of the offense made in terms of Section 23.9 of Paragraph XLVII of part II of Establishments Code of Democratic Socialist Republic of Sri Lanka, as a result of punishment given from 21 July 2017 the date of the Board meeting held to make the decision to suspend the service, a sum of Rs. 539,128 had been paid as salaries for the period of suspended without taking actions accordingly.
- (iii) Further, in terms of Section 13 of Payment of Gratuity Act No. 12 of 1983 the gratuity should be forfeit to the extent of the loss or damage caused to an employer by a labourer, because of not doing so, a sum of Rs. 187,596 had been paid. Accordingly, actions had not been taken to recover the amount totalled to Rs. 726,724.
- (d) The approval of the Board had not been obtained for the external resource persons recruit for the lectures.
- (e) The approval of the Board had not been obtained in respect of the content subjects in a short term training programme.
- (f) A sum of Rs. 51,391 had been allocated for the gratuity for the year under review for the two employees who had to be dismissed from the service by the Board due to being the convict at a Formal Disciplinary Examination.
- (g) The attention of the Management had not drawn to write off the receivable loan balances totalled to Rs. 623,297 from the books from the two officers who had died after dismissing from the service and the interdicted. The loan balances receivable from 16 officers who had resigned from the duties amounted to Rs. 92,016 could not be recovered from a long period.
- (h) The attention of the Management had not been drawn for the removal of the publications which could not be used amounting to Rs. 1,517,202 descending from previous years consisted in the value of the final stock balance amounting Rs. 1,686,163 appeared under the current assets of the statement of financial position as at 31 December 2017.

4.3 Operational Activities

Out of the recurrent grant amounted to Rs. 35,000,000 and a sum of Rs. 57,250,000 of capital provision for training expenses provided by the Line Ministry during the year under review a sum of Rs. 30,200,000 or 53 per cent had not been utilized. The vacancies in consultants and programme officers, delays in the appointments of new members of the Local Government Institutions had been shown by the Line Ministry as the reasons for the savings of provisions in the appropriation account furnished to audit for the year under review. Any training programme for the members of Local Government Institutions had not been identified according to the Action Plan furnished for the audit and it could have been used the external resources persons to avoid the shortage of the consultants.

4.4 Transactions not supported by Adequate Authority

Despite a post of a Working Director was not available a sum of Rs. 480,000 had been obtained by the Director a sum of Rs. 60,000 per month for 8 months in the preceding year also as the Working Director . A sum of Rs. 100,000 had been refunded on 22 March 2017 thereof.

4.5 Idle and Underutilized Assets

The balance of the savings account maintaining at National Savings Account was Rs. 4,399,788 as at 01 January 2017 which should be functioned as a Revolving Fund for granting loans to the staff of the Institute was underutilized due to not transferring this money to an investment or a fixed deposit.

4.6 Staff Administration

The approved cadre and the actual cadre of the Institute as at 31 December 2017 had been 49 and the actual number of employees were 36. Actions had not been taken to get the approval for the staff as suitable for the Institute and to fill the vacancies falling for long time in terms of Section 03 of Sri Lanka Institute of Local Governance Act, No. 31 of 1999.

5. Sustainable Development

5.1 Achieving of Sustainable Development Objectives

Every public institutions should act in compliance with the United Nations Sustainable Development year “ 2030 Agenda” the Sri Lanka Institute of Local Governance had not been aware as how to take measures relating to the activities under purview of their Scope.

As a result of the Sri Lanka Institute of Local Governance had not been aware of the 2030 Agenda as above, actions had not been taken to identify the Sustainable Development Goals in relation to the activities , targets and interlinks where can be achieved the targets and the indicators to measure for achieving the targets .

6. Accountability and Good Governance

6.1 Internal Audit

Only an Internal Auditor is being employed and since any officer had not been assigned to the Internal Audit Unit by the Institute a sufficient Internal Audit had not been carried out.

6.2 Budgetary Control

The following observations are made.

- (a) A Budget Estimate should be prepared and approved by the Governing Council in terms of Section 8 of the Finance Act No. 38 of 1971 before 03 months of the commencement of the financial year. Even though it was mentioned as budgeted profit and loss account, a balance sheet and a statement of cash flow had not been prepared for the relevant financial year in terms of Section 8 (3) The Budget Estimate had not been prepared in terms of those provisions.
- (b) In terms of Section 03 of the Sri Lanka Institute of Local Governance Act, No. 31 of 1999 training of the Members of the Provincial Councils and the Local Governance Institutions Officers and Employees , conducting researches and providing consultancy services, are the main activities of the Institute. Accordingly, while estimating the operational expenses of the Institute instead of preparation of estimate considering researches and consultancy services consisting the training which was the main operation of the institute , a sum of Rs. 57,250,000 had been estimated for the development of Human Resources under the capital expenditure.

6.3 Tabling Annual Reports

The Annual Report relating to the year 2016 had not been tabled.

6.4 Unresolved Audit Paragraphs

The following observations are made.

- (a) It had been entered in to an contract agreement amounted to Rs. 53,196,907 selecting a contractor by calling quotations in the year 2013 to construct a building consisting 04 floors for the Institute and the construction of the piled foundation of the building had been handed over to a sub- contractor . The following observations are made in this connection.
 - (i) Even though the Governing Council of the Institute had decided that the building proposed for 04 storied to extend up to 8 floors on 04 November 2013 and informed to the main contractor in writing , due to the main contractor had not informed the sub-contractor regarding that the piling and the foundation work had been completed to be sufficient only for 4 storied.
 - (ii) A consultancy company or a person had not been appointed for the supervision of the construction of the pile foundations. Even though the bills had been prepared for a sum Rs. 755,709 as supervision expenses by the main contractor for the supervision of the works of the sub- contractor, any technical examination to be carried out for the piles constructed and also conducting those examinations and submission of reports had not been made by the sub- contractor.

(iii) A sum of Rs. 38,147,381 had been paid to the construction contractor without examination of the piles constructed and because of the pile caps had been used connecting the piles, those had been impossible to test later on.

(iv) The PDA examination had been conducted by the Institute later on only for 02 piles which were not loaded the pile caps. It had been confirmed that as there was no necessary quality in one pile out of that and the quality of all the remained piles had not been confirmed. Accordingly, since the Institute had accepted that the construction of building on them was not suitable, it was observed in audit that the expenditure of Rs. 44,757,072 incurred was useless.

6.5 Achieving Social Responsibilities

The following observations are made.

- (a) The environmental and social responsibilities of the Institute had not been identified.
- (b) Even though the Waste Management was a main activity of the Local Governance Institutions any training programme or a workshop in respect of that had not been implemented by the Sri Lanka Institute of Local Governance.

7. 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

| | |
|--------------------------------|---|
| Fixed Assets Control | Non- maintenance of a Register of Fixed Assets properly |
| Accounting | Weaknesses available while making provision for depreciation |
| Staff Administration | Non-maintenance of personal files properly, not given salary increments, not carrying out disciplinary activities properly and not revising the Schemes of Recruitment as the way suits to the Institution. |
| Conducting Training Programmes | Not receiving maximum contribution from the current staff of the Institute and weaknesses available in conducting training programmes while occupying external resource persons under approved allowances. |