

Sri Lanka Institute of Local Government - 2018

1.1 Qualified Opinion

The audit of financial statements of the Sri Lanka Institute of Local Government for the year ended 31 December 2018, comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity 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 published 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 Sri Lanka Institute of Local Government as at 31 December 2018 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 responsibility under those auditing standards is further described in the Scope of Audit 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 misstatements 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 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 auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but it 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 Judgement 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 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 audit also had 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,
- * Whether the resources of the Institute's had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

The Institute is required to "devise and maintain" a system of internal accounting controls, sufficient to provide reasonable assurance that, transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference the relevant Standard	Comments of the Management	Recommendation
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<p>(a) Sri Lanka Public Sector Accounting Standard 02</p> <p>According to the paragraph 30 of the standard, the cash flow from the operating activities of the year had been under stated by Rs.356,817. The interest received on the savings account amounting to Rs.356,817 included in computing of operating profit had been shown again under financing activities as well.</p>	<p>Agreed with the matters pointed out. It will be expected to make similar adjustments thereon in the financial statements of the year 2019.</p>	<p>The attention of the management should be paid to prepare the financial statements accurately.</p>
<p>(b) Sri Lanka Public Sector Accounting Standard 09</p> <p>According to the paragraph 15 of the standard, the stock should be reported at cost or net realizable value whichever is less. Nevertheless, the out dated</p>	<p>Agreed with the matters pointed out. According to the instructions given by the Audit and Management Committee in respect of this</p>	<p>The attention of the management should be paid to prepare financial statements accurately.</p>

publications stock amounting to Rs.1,517,202 had been reported to the cost without being computing the net realizable value.

publication stock, action will be taken to compute the stocks through physical verification and to make adjustments in the financial statements of the year 2019.

1.5.3 Accounting Deficiencies

Audit Observation

Comments of the Management

Recommendation

(a) An accounting policy had not been identified relating to accounting of Government Capital grants of Rs.508,434,195 mentioned under equity of the statement of financial position while action had not been taken to identify and amortise the assets relating to the grants totalling Rs.2,601,484.

Agreed with the matter pointed out. Action will be taken to account grants and to recognize a policy for amortisation.

A policy for accounting of grants and amortisation should be introduced.

(b) The interest income had been overstated by Rs.131,634 in the statement of revenue.

Agreed with the matter pointed out. In preparing final accounts in the year 2017 a balance which should have been transferred to savings account had been considered as interest income instead of crediting the respective receivable account and the error was occurred. Action will be taken to rectify relevant rectifications through financial statements in future.

The interest revenue should be computed and brought to account accurately.

1.5.4 Inappropriate Evaluation or Estimation

Audit Observation

According to Section 03 of Sri Lanka Institute of Local Government Act No.31 of 1999, it should be included the main function of training with research and instructing services and should estimate under Recurrent Expenditure in estimation of operating expenses of the Institution. Instead of that, a sum of Rs.30,000,000 had been estimated under capital expenditure for human resources development.

Comments of the Management

The money allocation has been made under capital receipts through annual budget for the training of officers of the Local Government Institutions and Public Representatives which is a main activity of this Institution. Action will be taken to submit the facts to the Audit and Management Committee to be held in future in respect of the matters pointed out and to obtain instructions and action will be taken accordingly.

Recommendation

The required provisions for operating expenditure should be made under Recurrent Expenditure.

1.6 Receivable Money

Audit Observation

- (a) The attention of the management had not been paid to take action in respect of the loan balances totalling Rs.631,297 recoverable from 02 officers deceased who dismissed and interdicted. The loan balances of Rs.85,416 recoverable from 11 officers who resigned from the service had not been recovered for over a long period.
- (b) The recoverable money from the Ministry of Provincial Councils and Local Government amounting to Rs.492,000 for the diaries printed in the year 2015 by the Institution was not received even during the year 2018.

Comments of the Management

Action will be taken to write off the loan balances of less than Rs.10,000 which could not be recovered and expect to institute legal actions in respect of the other loan balances.

Even though, the Ministry had been informed in several times, that amount was not received so far.

Recommendation

Action should be taken to recover the loan balances from the surety.

The attention of the management should be paid in respect of the recovery of receivable money.

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

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Establishments Code of the Democratic Socialist Republic of Sri Lanka.			
(i)	Chapter II Section 13.1.2	An acting appointment had been given to an officer who is not having the required minimum qualifications for the post of Instructor (Financial and Management) and a sum of Rs.96,624 had been paid as acting salary.	The officer had been appointed for a 6 months period for the essential duties of the Institution according to the decision of 160/03 of the Board of Control.	The recruitments should be made in compliance with the recruitment procedure and the payment of salaries should be made in accordance with the Establishments Code.
(ii)	Chapter II Section 15.1 (ix)	Permanent status of service and promotions for 32 officers had not been made properly due to non-conducting of Efficiency Bar examinations on due dates.	The required activities for the approval is being carried out at present.	Action should be taken to conduct Efficiency Bar examinations on due dates as stated in the Establishments Code and the permanent status of the officers and the promotions should be given properly.
(b)	Treasury Circular No. IAI/2002/02 dated 28 November 2002.	A Register of Fixed Assets in respect of Computers, Accessories and Software had not been maintained.	Action will be taken in future.	According to the Circular a Register of Fixed Assets in respect of Computers, Accessories and Software should be maintained.

2. Financial Review

2.1 Financial Results

The operating results of the Institution for the year under review had been a surplus of Rs.2,836,486 as compared with the surplus of the preceding year amounting to Rs.5,411,945, thus observed a deterioration of Rs.2,575,459 in the financial results. The decline of revenue of special projects by Rs.6,364,848 and the decrease of Government contribution by Rs.4,905,000 had mainly attributed for this deterioration.

2.2 Trend Analysis of Main Income and Expenditure

- (a) The revenue of special projects was decreased by Rs.6,364,848 or 33.38 per cent as compared with the preceding year and the reasons for above decrease had been the completion of the projects such as Strengthening of Community Based Organizations for Upgrading Participatory Control and the project of Improvement of Northern and Eastern Local Government Institutions and Local Services during the year under review. Further, the other revenue was decreased by Rs.2,899,383 or 70.14 per cent.
- (b) Even though, the establishment and administration expenditure had increased by Rs.1,309,829 or 3.76 per cent, the human resources development expenditure had decreased by Rs.3,601,085 or 14.72 per cent.

2.3 Ratio Analysis

The current assets ratio and the quick assets ratio for the year under review and for the preceding year are as follows.

Ratio	Year	
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	2018	2017
Current Assets Ratio	7.69:1	4.55:1
Quick Assets Ratio	7.40:1	4.39:1

The current assets ratio and the quick assets ratio had reflected a higher value due to not carried out an evaluation in respect of maximum current assets requirement and quick assets for the Institution. About 70 per cent of the surplus balances of cash remained in the bank circulation accounts had not been referred to an investment and as such those assets had remained idle throughout the year.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

Comments of the Management

Recommendation

(a) Despite that, it was revealed that the Internal Audit Officer had involved collusion with a driver of the Institution and made a cash fraud through fuel orders, disciplinary action had not been taken against him and, the Internal Audit Officer had been promoted to the post of Internal Auditor as per the Decision of the Board of Control on 21 November 2017.

It was carried out on a decision taken by the Management in that period (Board paper No.71/06 of the Board of Control dated 28 January 2008).

Action should be taken by the Institution in respect of the frauds and errors in terms of the Establishments Code of Democratic Socialist Republic of Sri Lanka properly.

(I) Action had not been taken to recover the loan balance of Rs.256,983 recoverable from the Internal Auditor before accepting his resignation.

The resignation had been accepted on several conditions.

Action should be taken to study and take the decision in respect of the resignation before accepting the resignation.

(II) As the gratuity payment entitled to the Internal Audit Officer who resigned from the service was not paid, the Commissioner of Labour had informed to deposit 20 per cent or surcharge amount of Rs.93,857.40 to the Assistant Commissioner of Labour.

The delay was occurred due to the decision of payment of gratuity was postponed even in the 163rd meeting of the Board of Control held on 23 August 2018 until receive the due report from the Administrative Officer.

The respective officers were directly responsible for the losses and damage causing due to the negligence of the officers.

(b) Two executive officers of Additional Director and Consultant Engineer who were subjected to a formal disciplinary action relating to a cash fraud had been attached to the Line Ministry from January

The conducting of disciplinary inquiry for these two officers are being carried out at present. The evidence were given by 15 other employees of the

The Institution should take action properly in terms of Section 31 of Chapter XLVIII of volume II of the Establishments Code of the Democratic

2016 and a sum of Rs.1,987,240 had been paid by the Institution as salaries and allowances for these two officers for the year 2018. Out of the total employees remuneration expenditure of Rs.13,794,878, the contribution for these officers had been 14 per cent. Nevertheless, no contribution whatsoever had been obtained from these officers for the performance of the Institution from the date of attaching them to the Line Ministry.

Institution for above disciplinary inquiry. As it can be an obstruction for the disciplinary inquiry these two officers had been attached to the Ministry on a decision of the Board of Control.

Socialist Republic of Sri Lanka.

(c) Despite, that the Board of Control had decided to send a letter of demand requesting the entire money recoverable to the institution from the driver charged as an accuse in a formal disciplinary inquiry, the letter of demand had not been sent and as such a loss of Rs.539,128 had incurred.

The matter pointed out by audit is accepted. This matter was delayed due to non-availability of a legal officer in the Institution and had to be inquired from the Board of Control that sending of letter of demand should be carried out by a legal officer himself.

An internal check system should be implemented by establishing that the decisions taken by the Board of Control are implemented.

3.2 Operating Inefficiencies

Audit Observation

Comments of the Management

Recommendation

(a) Even though, the applications to recruit external resource persons had been called by the paper advertisement published on 14 December 2017, a formal methodology had not been followed to select resource persons and without the approval of the Board of Control action had been taken to register 85 resource persons according to the subject field.

It was due to be furnished to the Board of Control in December 2018.

Action should be taken to enquire in respect of not taking due actions.

(b) The implementation objectives of 2 research proposals implemented in the year 2018 had not been mentioned.	It was mentioned under No.01 of the agreement.	The objectives of carrying out any research should be specified basically.
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3.3 Transactions of Contentious Nature

Audit Observation

A sum of Rs.1,183,982 had been paid as advance money to the Sri Jayawardenapura University on the decision taken by the Board of Control on 20 February 2018 that it should be selected a University for the research proposals. Nevertheless, a receipt had not been obtained for the payment and a bid security as well had not been obtained. Further, the objectives of this research study had also not been mentioned.

Comments of the Management

Action was not taken to obtain a bid security as it was a study activity.

Recommendation

Action should be taken according to the laws, rules and regulations.

3.4 Under-utilization of Funds

Audit Observation

The recurrent provisions of Rs.44,000,000 made by Treasury during the year under review and a sum of Rs.18,551,000 or 25 per cent out of the capital provisions of Rs.30,000,000 made for training expenditure had not been utilized.

Comments of the Management

The reason for the decrease of capital expenditure was the delay of receiving funds and the decrease of recurrent expenditure was due to existing of vacancies.

Recommendation

The provisions should be allocated for which could be utilized.

3.5 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
<p>-----</p> <p>The construction of a new building for the Institution had been commenced in the year 2013 and the piling foundation had been constructed by incurring Rs.44,757,072. As not carrying out the technological test relating to the pile cap before constructions of the foundation, the constructions had been abandoned from the year 2014 as it could not be concluded the holding strength of the piles.</p>	<p>-----</p> <p>A cabinet paper was submitted to the Cabinet of Ministers in respect of the construction of the new building. Accordingly, it was entrusted to the National Procurement Commission to enquire in respect of the expenditure incurred previously and the discussions is being made with the Moratuwa University in respect of the future construction works.</p>	<p>-----</p> <p>Should be examined the constructions of the building of the Institution and prompt actions for future works should be implemented without incurring losses to the Government.</p>

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
<p>-----</p> <p>Even though, the financial statements should be furnished to the Auditor General, within 60 days after the end of the accounting year in terms of paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements for the year 2018 had been furnished to audit only on 18 April 2019 after a delay of 48 days.</p>	<p>-----</p> <p>Due to a delay of appointing the Board of control, the presentation of financial statements was delayed.</p>	<p>-----</p> <p>Action should be taken in accordance with the circulars.</p>

4.2 Internal Audit

Audit Observation

The post of the Internal Auditor had remained vacant after the resignation of Internal Auditor of the Institution on 01 June 2018.

Comments of the Management

The Internal Auditor of the Ministry of Provincial Councils and Local Government had been appointed for acting of the post and the required action will be taken to fill the vacancy immediately.

Recommendation

In terms of section 40 of the National Audit Act, there should be an Internal Auditor and as such prompt action should be taken to recruit for the post.

4.3 Environmental Issues

Audit Observation

Even though, the management of waste is a main activity of the Local Authorities no training programme or workshop whatsoever had been implemented by the Sri Lanka Institute of Local Government relating to that.

Comments of the Management

The discussions is being made to conduct during this year.

Recommendation

The required training programmes should be conducted.

4.4 Sustainable Development Goals

Audit Observation

As the Sri Lanka Institute of Local Government had not aware in respect of the 2030 Agenda as above action had not been taken to identify the objectives, goals and milestones to achieve that goals and the indicators to measure the achievement of that goals.

Comments of the Management

Comments not furnished.

Recommendation

Action should be taken by the Institution in terms of the provisions of the Act.