

## **Sri Lanka Institute of Development Administration – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Institute of Development Administration 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 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 Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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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**

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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 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 intend to liquidate the Institution 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.

## 1.4 Auditor's Responsibility in Auditing Financial Statements

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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 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 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 auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the 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 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 Institut., 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 it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 Internal Control over the preparation of Financial Statements

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Entities are 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

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The following observations are made.

<b>Non-compliance with Reference to Relevant Standard</b>	<b>Comments Given by the Management</b>	<b>Recommendation</b>
<b>Sri Lanka Public Sector Accounting Standards</b>		
(a) The non-deposited receipts amounted to Rs. 525,555 had been shown as a change in working capital without stating in the balance of cash and cash equivalents in terms of Paragraph 09 of Standard 02.	The cash and value of cheques that had received in various ways but not deposited as at 31 December 2018 are shown as non-deposited receipts under current assets for ease of identification in financial statements.	Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards.

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| (b) | Although the accounting of an asset its cost or fair value should be able to reliably measure in accordance with paragraph 14 of Standard No. 07, the value of four contracts amounted to Rs. 15,228,514 had been capitalized based on the engineering recommendation. | The works on 04 improvement contract constructions whereas the provisions made under the capital programme of 2018, were commenced in the mid of the year 2018. Nevertheless, since its activities were not completed in the year 2018, the value that should be paid furthermore for the relevant contracts has been identified and capitalized based on the engineering recommendation. | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards. |
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### 1.5.3 Accounting Deficiencies

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The following observations are made.

Audit Observations	Comments Given by the Management	Recommendation
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(a) Out of the money granted in the year 2015 for conducting local and foreign training programmess through the Department of Animal Production and Health amounted to Rs. 8,158,986 in the year 2015, the balance that had not incurred amounted to Rs.1,036,804 had been taken in to accounts as revenue of the current year without refunding.	The balance out of the money received in 2015 for conducting of funds for conducting training programmes in the Department of Animal Production and Health, has been taken in to accounts as revenue since the relevant Department has not inquired for a long time.	Steps should be taken to return the excess funds received from the relevant institutions without bringing them into the Revenue.
(b) A sum of Rs. 12,195,650 that had been shown as receivable to the Post Graduate Division and the Language Division had been written off without formal approval. As a result, the deficit for the year under review had been overstated by that amount.	After paying the registration fee for the relevant course to the Post Graduate Degree Division and Language Division, the rest of the entire course fee is shown as receivable income in the financial statements for many years. Since those who have registered for these courses have not been attended the	The required approval should be obtained when writing off the receivables.

relevant courses, there is no special approval required to adjust and remove the value from the accounts and the financial statements have been approved by the Governing Council.

#### 1.5.4 Unreconciled Control Accounts or Records

The following observation is made.

Item	Value as per Financial Statements	Value as per Corresponding Records	Difference	Comments Given by the Management	Recommendation
	Rs.	Rs.	Rs.		
Total cost of Fixed Assets	779,612,380	786,743,302	7,130,922	Steps have been taken to update the Register of Fixed Assets for the years 2017 and 2018.	The Register Fixed Asset should be updated.

#### 1.6 Accounts Receivable and Payable

##### 1.6.1 Receivables

The following observation is made.

Audit Observation	Comments Given by the Management	Recommendation
The balance receivable over an year was Rs. 16,918,571 in the Financial Statements.	The comments have not been furnished.	Actions should be taken to recover these balances.

## 1.6.2 Payables

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The following observation is made.

<b>Audit Observation</b>	<b>Comments Given by the Management</b>	<b>Recommendation</b>
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The balance payable in between 1 to 5 years in Financial Statements amounted to Rs. 38,310,438 and the balance over 5 years amounted to Rs 4,078,959.	The comments have not been furnished.	Steps need to be taken to settle these balances.

## 1.7 Unauthorized Transactions

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The following observation is made.

<b>Audit Observation</b>	<b>Comments Given by the Management</b>	<b>Recommendation</b>
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It was observed that 78 Efficiency Bar Examinations were conducted during the current year not set forth as an objective in the establishment of Sri Lanka Institute of Development Administration Act No. 09 of 1982.	The Committee which was appointed in 1982 to conduct examinations has approved the conduct of examinations in Sri Lanka Institute of Development Administration.	The provisions of the Act should be amended as per the activities.

## 1.8 Non-compliance with Rules, Regulations and Management Decisions

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The following observations are made.

<b>Reference to Non-compliance Rules, Regulations etc.</b>	<b>Comments Given by the Management</b>	<b>Recommendation</b>
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(a) Paragraph XV of the Establishments Code Section 10.4 and Section 10.8	Although the approval of the Minister should be obtained 10 days prior to departure for abroad, despite two officers have not been granted permission for their travel, had gone abroad.	Officers have been instructed to travel abroad with proper approval in future. The relevant Approval should be obtained before going abroad.

**(b) Public Finance  
Circulars**

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| <p><b>(i)</b> Circular No. 01/2015/01 dated 05 May 2015</p>     | <p>In case of only the facilities for accommodation is provided by the foreign government or the donor agency, only 1/3 of 35 per cent of the combined allowance for meals should be paid. Even so, a sum of Rs. 4,115,324 (US Dollars 23,788) had been overpaid for 11 officers of the institute and 166 officers of other institutions as not complying with.</p> | <p>The approval had been given to pay 17 per cent of the combined allowance for dinner by the letter dated 17 March 2017 of the Secretary to the Ministry of Public Administration and Home Affairs, for foreign travel. These payments have been made based on that. Actions has been taken to pay 1/3 of the 35 per cent combined allowance as specified in the Ministry of Finance Circular No. 02/2015/01 since 2019.</p> | <p>Actions should be taken in accordance with the Circular Provisions.</p> |
| <p><b>(ii)</b> Circular No. 03/ 2015 dated 14 July 2015</p>     | <p>Although the sub imprests should be settled as soon as the relevant work is completed, It had been seen there were delays of 10 days to 209 days in settlement of the advances amounted to Rs. 794,405 obtained for the course fees and expenses at 19 occasions in the year under review.</p>   | <p>It was noted that the settlement of imprests to be made as soon as the work was completed, in future.</p>  | <p>Actions should be taken in accordance with the Circular.</p>            |
| <p><b>(c)</b> Treasury Circular No. 842 of 19 December 1978</p> | <p>Actions had not been taken as per the provisions of the Circular to maintain a register or update the prepared register in respect of fixed assets valued at Rs. 56,743,886.</p>   | <p>Steps have been taken to update the Register of Fixed Assets for the years 2017 and 2018.</p>  | <p>Actions should be taken in accordance with the Circular.</p>            |

## 1.9 Fund Management

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The following observation is made.

<b>Audit Observation</b>	<b>Comments Given by the Management</b>	<b>Recommendation</b>
<p>In analyzing the two bank accounts maintained by the Institute a balance of approximately Rs. 5 million is being maintained on a daily basis throughout the year and a balance of Rs. 72,042,623 was observed at the end of the year and the chances of earning an income by investing in Call Deposits, rather than keeping a large amount of cash in current accounts, had not been prudently considered.</p>	<p>It is informed that this money is to maintain the purposes such as lecture fees, consultancy fees and exam expenses. After incurring expenses from the balance of the year end account of the Institute , a sum of Rs. 40 million has been invested in fixed deposits in January 2019 .</p>	<p>It should be act prudently in handling cash balances.</p>

## 1.10 Non-compliance with Tax Regulations

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The following observation is made.

<b>Audit Observation</b>	<b>Comments Given by the Management</b>	<b>Recommendation</b>
<p>The PAYE tax collected should be remitted to the Inland Revenue Department before the 15th of the month after the due date, a sum of Rs. 596,023 that had deducted from June to December of the year under review had not been remitted to the Inland Revenue Department.</p>	<p>It is accepted that there is a delay in remittance of taxes in due. Actions are being taken to send the relevant taxes to the Inland Revenue Department in the following month itself .</p>	<p>Actions should be taken to pay the collected taxes without delay.</p>



## 2. Financial Review

### 2.1 Financial results

The operating result of the Institute was a deficit of Rs. 16,428,481 for the year under review and the excess for the preceding year was a sum of Rs. 16,040,654 as against to that. Accordingly, decline of Rs.32,469,135 was observed. The decrease in consultancy service income was mainly attributed for this deterioration.

### 2.2 Trend Analysis of Key Income and Expenditure Subjects

Lecturer fees income and consultancy services income had decreased from 206 per cent and 307 per cent as compared to the year 2017 respectively.

## 3. Operating Review

### 3.1 Management Inefficiencies

The following observations are made.

#### Audit Observation

A 50 per cent secondment allowance had been paid to the academic staff on secondment basis as decided by the Cabinet of Ministers 403/13/0237/523/001 dated 19 April 2013. It was stated that the minimum number of hours worked per month should be 45 as per the Directive given by the Committee on Public Enterprises dated 14 November 2014 to pay it. In this connection the following observations are made.

#### Comments Given by the Management

#### Recommendation

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| <p>(i) Due to the inability to charge for the reduced hours of the lecturers who did not reach the 45 hour limit, a revenue of Rs. 1,433,300 had been lost to the Institute within the first 06 months of the year 2018.</p> | <p>According to the Decision of the Governing Council on 24 April 2015, it was mandatory that all lecturers should cover 45 hours of lecture per month from 01 July and if a lecturer has not covered his or her</p> | <p>As per the COPE Decision dated 14 November 2014, the 45 hour mandatory period of service (because of pay) is emphasized and if it does not work accordingly, it should be recovered from the</p> |
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lecture hours during the given month, the lecture hours of the courses those charged will be used for that.

- (ii) Whilst preparation of work estimates for the Induction Training Course for 104 officers recruited to Sri Lanka Administrative Service on open basis in the year 2017 it had been planned for 3,888 lecture hours as 2,034 hours of external lecturers delivering including 1,854 hours of lectures by internal lecturers. However, as a result of only 1,080 hours of internal lectures or 58 per cent and 1,650 lecture hours or 81 per cent of the total were held in actual, it was observed that since the external lecturers were given priority in the task, the contribution of the internal lecturers was low.
- Induction Training Programmes are being conducted in groups of approximately hundred officers within a year. Accordingly, when several training programmes are conducted simultaneously and capacity building programmes implemented according to service requirements and there are not enough consultants to assist in the implementation of other training programmes and the number of instructors currently in the faculty also limited.
- The human resources available within the organization should be allocated to the Internal lectures in optimum level.

### 3.2 Underutilization of Funds

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The following observation is made.

<b>Audit Observation</b>	<b>Comments Given by the Management</b>	<b>Recommendation</b>
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The balance of the Capital Grant Account as at 31 December 2017 was Rs. 69,226,520 and a sum of Rs. 112,780,000 had been received during the year under review as Capital Grant. Out of this a sum of Rs. 116,630,536 had been utilized and the unutilized balance remained amounted to Rs. 65,375,984 had been retained in the current account by 31 December 2018.	The Institute has planned to use the unutilized balance of the capital account as at 31 December 2018 amounted to Rs. 65,375,984 for the improvements of the Institute.	The Capital Grants should be utilized properly since it is observed in the financial statements of the past years that the capital grants have been held in hand- and subsequently invested.

### 3.3 Procurement Management

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The following observation is made.

Audit Observation	Comments Given by the Management	Recommendation
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The variances ranging from 6 per cent to 89 per cent were observed when comparing the actual utilized amount for the Fixed Assets with the Procurement Plan for the year 2018 .	The bid value for the garden maintenance and landscaping and furniture purchases had been less than the estimated value and there were no requirements for repairs and maintenance.	Actions should be taken as planned.

### 3.4 Shortcomings in Contract Administration

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The following observations are made.

Audit Observation	Comments Given by the Management	Recommendation
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The following matters were observed with regard to the construction of lecture hall building No. 2-1 and 1-1 .		
(a) Once the work is completed in accordance with the agreement, the Engineer shall certify the value payable to the Contractor within 14 days of submission of the final bill by the Contractor. The Contractor should be paid within 10 days of receipt of the relevant certification. The agreements in respect of both these lecture halls were not in compliance with the above clauses.	It was advised not to make such shortcomings in the future.	Actions should be taken as per the agreement entered in to.

- (b) The contract period was 60 days as per the agreement and the contractors of both of the above contracts had failed to complete the renovation work during that period.
- The recommendation had to be obtained from the Sri Lanka Engineering Service Corps with regard to the work items presented in relation to the Provisional Sum included in the BOQ during the work on renovation works and the prices. Due to sheer volume of duties of the officers of that organization obtaining of recommendations were delayed.
- The construction should be completed during the contract period.

### 3.5 Human Resource Management

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The following observation is made.

<b>Audit Observation</b>	<b>Comments Given by the Management</b>	<b>Recommendation</b>
----- The number of cadre approved by the Department of Management Services as at 31 December of the year under review was 165 and since the actual cadre was 109, a number of 56 positions were in vacant.	----- The comments had not been given.	----- The actions should be taken to fill the vacancies.

### 3.6 Management of Vehicle System

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The following observation is made.

<b>Audit Observation</b>	<b>Comments Given by the Management</b>	<b>Recommendation</b>
----- The activities had not been carried out to take over and register a vehicle which was used for run in the year 2018 .	----- The KY - 4331 Nissan X-trail Jeep is owned by the Ministry of Public Administration and has been provided for use as the official vehicle of the Director General of the Institute. Actions will be taken to take over the vehicle with the concurrence of the Ministry.	----- Actions should be taken to take over the ownership of the vehicle to the Institute.

#### **4. Accountability and Good Governance**

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##### **4.1 Tabling of Annual Reports**

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The following observation is made.

<b>Audit Observation</b>	<b>Comments Given by the Management</b>	<b>Recommendation</b>
Although the Annual Reports should be tabled in Parliament within 150 days of the end of the financial year in terms of Section 6.5.3 of the Public Enterprises Circular No. PED / 12 of 02 June 2003, the Annual Report for the year 2017 had not been tabled until the date of audit.	The Annual Report 2017 has been handed for printing.	Actions should be taken in accordance with the provisions of the Circular.

##### **4.2 Budgetary Control**

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The following observations are made.

<b>Audit Observation</b>	<b>Comments Given by the Management</b>	<b>Recommendation</b>
(a) The Annual Budget should be included in the budgeted cash flow statement as per the Section 5.2.1 of Public Enterprises Circular No. PED / 12 dated 02 June 2003 , the Annual Budget of the Institute had not been prepared accordingly.	The comments had not been given.	Actions should be taken in accordance with the provisions of the Circular.
(b) There was a variance ranging from 13 per cent to 130 per cent, in between the budgeted expenditure as compared to the actual expenditure in the year under review and the variation in the income had ranged from 43 per cent to 47 per cent.	The comments had not been given.	That the actual state should be matched with the budgeted provision.