

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Local Government for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement financial performance, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 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 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 2023, 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

My opinion is qualified 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

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 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 Audit Scope (Auditor's Responsibility for the Audit of Financial Statements)

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 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 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 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; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with the reference to relevant standard	Management's comments	Recommendation
a) Sri Lanka Public Sector Accounting Standard -02		
i. Although the previous year under provision of income tax of Rs.528,434 should be deducted from the profit before tax and income should be re-adjusted in preparation of the cash flow statement, the loss after deduction of tax amounting to Rs.293,425 had been adjusted to profit before tax.	In the preparation of statement of cash flows, the profit after income tax for the year was taken.	Financial statements should be prepared accurately as per the standard.
ii. In the cash flow statement, the cash out flow under operating activities was understated by Rs.1,803,980, the cash out flow under investing activities was overstated by Rs.21,000, and the cash inflow under financing activities was understated by Rs.1,790,137.	The company income tax payable was also taken into account in calculating the change in creditors, and accordingly the change in creditors has been adjusted to the statement of cash flows.	-Do-
b) According to Sri Lanka Public Sector Accounting Standard No. 14,	According to the audit observation, disclosure of	The disclosure should be made in the financial

the compensation of the key management personnel should be disclosed in the financial statements under related party transactions. However the benefits paid amounting Rs.3,235,669 by the entity to the director of the entity during the year under review were not disclosed in the financial statements.

related party transactions in accordance with Sri Lanka Public Sector Accounting Standard No. 14 will be made in the future financial statements.

statements as per the standard.

1.5.2 Accounting deficiencies

Audit observation	Management's comments	Recommendation
<p>a) Although the previous year under provisioned income tax expenditure should be adjusted to the income tax expense of the year under review, it had been shown under administrative expenses. Accordingly administrative expenditure had been overstated by Rs.528,434 and the income tax expense was understated by that amount.</p>	<p>The actual payment of the relevant under provisioned tax was shown under the Administrative Expenses as Company Income Tax sub-heading and thus the profit of the year under review had not been affected.</p>	<p>The correct tax expense and administrative expense should be shown in the financial statements.</p>
<p>b) Although the income tax payable shall be calculated on gross investment income of Rs.8,353,488 and deducting the advance income tax paid amounting to Rs.417,674, the income tax for the year had been calculated on net investment income of Rs.7,935,814. Accordingly income tax had been overstated by Rs.292,372.</p>	<p>For the year 2023, the income tax expense had not been overstated as the net interest income of Rs.7,825,286 earned by the entity is taken after deducting the With Holding tax.</p>	<p>1. When accounting for investment income gross investment income should be accounted for. 2. The calculation of income tax should be done correctly and action should be taken to deduct the overstated income tax.</p>
<p>c) Income receivable from diploma and certificate courses had been understated by Rs.520,000.</p>	<p>Income due in relation to three diploma courses in the academic year 2022/23 had not been adjusted in the 2023 financial statements</p>	<p>Receivable income should be recognized in the financial statements.</p>

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit observation	Management's comments	Recommendation
The course fees amounting to Rs.1,541,250 outstanding since 2017, had not been settled.	The relevant section were instructed to recover the possible recoverable amount from the total of Rs.1,541,250 and to submit a report regarding the irrecoverable income. Accordingly, further adjustments will be made after receiving the relevant reports.	Action should be taken to recover the receivables and settle the outstanding balances.

1.7 Non-compliance with Laws, rules, regulations and management decisions

Reference to Laws, Rules, and Regulations	Non-compliance	Management's comments	Recommendation
Paragraph 02 (iv) of Management Services Circular No. 05/2017 dated 25 October 2017	In paying the professional allowance, only the service period in the senior level of the relevant entity should be applied. However Rs.321,677 had been overpaid due to considering the previous service period of the chief executive officer.	By an internal memo the Director/ Chief Executive Officer of the Sri Lanka Institute of Local Government agreed to deduct such overpaid amount as the first instalment from the total increment arrears owed by him from 2021 up to now and rest to be paid as instalments.	The overpaid professional allowance should be immediately recovered.

2 Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs.2,795,448 and the corresponding profit in the preceding year amounted to Rs.2,079,104. Therefore, an improvement amounting to Rs.716,344 of the financial results was observed. Even though the government grants, diploma course income and project income was decreased respectively by Rs.6,457,000, Rs.5,609,350 and Rs.3,535,823 ,increase in the income from short-term courses and other income by Rs.8,074,794 and decrease in other project expenses and other expenses by Rs.6,613,883 were the major reasons for this growth.

3. Operational Review
3.1 Management Inefficiencies

Audit Observation	Management's comments	Recommendation
A sum of Rs.513,000 overpaid salary to the former director from February 2020 to August 2021 had not been recovered.	The decision given by the 171st Governing Council regarding the recovery of the overpaid salary has been forwarded to the former director.	Overpaid Salary should be immediately recovered.

3.2 Operational Inefficiencies

Audit Observation	Management's comments	Recommendation
(a) In accordance with 3(a), (b) of Act No. 31 of 1999 on the Sri Lanka Institute of Local Government, one of the main functions of the institute is to provide training and conduct overall work and training courses for the members, officers and employees of provincial councils and local government institutions in order to perform their duties more efficiently and effectively. However, although it was planned to conduct 10 diploma courses and 25 certificate courses in the year under review, only 02 and 04 courses had been conducted respectively.	All courses could not be held as planned due to insufficient minimum number of applications	Actions should be taken to carry out the functions assigned by the Act.
(b) As per the paragraph (3) (g) of the said Act, although it is the duty of the institute to accept assignments in advisory nature in the field of provincial and local government, such assignment had not been accepted in the years 2021, 2022 and 2023.	It should be mentioned that there was only one consultant in the staff of the institute and that officer also retired on 31.12.2023 and hence there are neither positions nor officers for consulting in the institute. Nevertheless, from 2021 to 2023, our institute has not received assignments of that nature.	-Do-
(c) In order to implement the accounting standards introduced by the Institute of Chartered Accountants of Sri Lanka for the local government bodies, the nine	It should be mentioned that the Ministry is currently working on the matter in collaboration with the	Rules should be formulated at the provincial level to implement the

provinces at the provincial level had to formulate rules by the minister of local government of that province. Even though, such rules have not been formulated in 7 provincial councils, training programs related to the new accounting system had been conducted in the 7 provinces at the expense of Rs.5 million.

relevant officials and is working to fix the shortcomings of the new accounting system and is currently in its final stages.

standard. For the new accounting system, existing deficiencies should be corrected and then implemented.

(d) The resource persons were employed for the programs without being submitted to and obtaining approval by the Governing council for the list of resource persons for the years 2022 and 2023 and Rs.1,510,604 and Rs.2,159,000 had been paid respectively in 2022 and 2023.

The registration of resource persons for the year 2024 was done and will be forwarded for the approval of the governing council in the future.

Resource persons list should be approved by the governing council.

(e) The environmental and social responsibilities relevant to the institute had not been identified and acted upon. Moreover, even though the waste management is a major function of the local government institutions, no such training program or workshop had been implemented by the institute.

Although applications were called for conducting a certificate course on environmental protection and solid waste management for the years 2022 and 2023, the course could not be conducted due to insufficient applications.

The organization should identify the relevant environmental and social responsibilities and accordingly the role to be performed should be identified.

3.3 Procurement Management

Audit Observation	Management's comments	Recommendation
<p>As per the paragraph 2.6.1 (ii) of the procurement guidelines, the technical evaluation committee should review and approve the specification before commencing the procurement process. However the technical evaluation committee was appointed 13 days after the publication of the procurement notice. And also, an expert who has subject knowledge shall be in the technical evaluation committee as per paragraph 2.8.1 (b) and (c) of the procurement guidelines, had not represented this committee. The advertisement for selection of eligible parties for preparing the E-content modules was published on 25th and 26th November</p>	<p>Since SLILG has only a limited number of officers, there is no permanently appointed technical committee and hence appropriate officers are appointed for the purpose on ad hoc basis. It is expected to appoint an external officer who has the subject knowledge or a subject officer from the line ministry based on the necessity. Due to non-receipt of quotations for all the</p>	<p>The Technical Evaluation Committee shall be appointed in accordance with the provisions of the Procurement Guidelines. All interested and eligible parties should be given maximum opportunity to participate in the procurement process. Dates for submission of bids shall be</p>

2022 only on the website of line Ministry. Due to not providing fair, equal and maximum opportunity to other eligible interested parties for participation, the invitation for bids had been extended for 3 months till 03 March 2023. As per 6.2.2 of procurement guidelines the minimum period for submission of bids is 21 days, however in 3 cases 14 days, 4 days and 9 days had been provided.

subjects published by SLILG, the quotation submission dates for those subjects had to be extended. Calling bids was done promptly and then due to the non-receipt of the bids, the date had to be extended for another two months.

provided as per procurement guidelines.

3.4 Defects in Contract Administration

Audit Observation	Management's comments	Recommendation
The cost of Rs. 46,275,072 incurred for the office building which was started construction in 2013 but not completed remained idle.	The Secretary of the Ministry of Provincial Councils and Local Government has appointed a committee consisting of three experts in the field on 18.04.2022 and so far they have prepared a complete report related to this construction and given it to the Ministry. Although the contractor was informed that the contract was cancelled according to the instructions of the Attorney General's Department, he again informed that the termination of the contract is not valid.	The construction work of the building should be checked and the loss of government should be recovered.

3.5 Matters in contentious nature

Audit Observation	Management's comments	Recommendation
The resource persons were not selected following the procurement guidelines in a formal and accepted manner for the work of setting up special operating procedures for the 53 local government posts. Moreover Memorandums of Understanding were not signed with the selected resource persons and without obtaining treasury approval, by	The selection of resource persons was done by UNDP-CDLG and we were assigned only the coordination of these programs. Accordingly we carried out the work by coordinating this work with	Selection of resource persons should be done as per a competitive methodology. MOUs should be signed with the selected resource persons and Treasury

31 December 2023 participation allowances of Rs.696,000 had been paid using the grant received from UNDP-CDLG to the officials of the local government bodies selected for the related functions. the selected resource persons and we have only issued letters to the concerned local authorities to get leave for those officers to carry out this work. All payments are subject to the approval of the Director/ CEO of the institute. approval should be obtained for payments.

4. Accountability and Good Governance

4.1 Annual Report

Audit Observation	Management's comments	Recommendation
The annual reports of 2020, 2021 and 2022 had not been tabled in Parliament.	The annual reports have now been sent for translation and I will make the necessary arrangements to present them to Parliament within the next few months.	Action should be taken to table the annual reports in the Parliament.

4.2 Effectiveness of management information system

Audit Observation	Management's comments	Recommendation
Although this institute is the only institution that conducts training courses for all local government officials in Sri Lanka, a data base was not maintained enabling obtaining all related details accurately and promptly.	It was also discussed in the audit and management committee meetings to bring the information of all the departments to one information system and the attention of the management has also been focused on it.	An information system should be maintained including all the information.

4.3 Sustainable Development Goals

Audit Observation	Management's comments	Recommendation
Due to the fact that the institute was not aware of the 2030 agenda regarding the sustainable development goals, it had not identified the sustainable development goals and targets as well as indicators to measure the achievement of the goals.	Sustainable development objectives are directly covered through various training workshops. The knowledge provided and updated through the training workshops as well as improved skills will provide the necessary guidance to reach other sustainable development objectives.	Action should be taken to establish sustainable development objectives, targets and to identify performance indicators.