

CONTENTS

	Page No.
1. CORPORATE GOVERNANCE STATEMENT	01
2. REVIEW OF OPERATIONS	03
3. FINANCIAL INFORMATION	17
4. INCOME STATEMENT	18
5. BALANCE SHEET	19
6. CASH FLOW STATEMENT	20
7. STATEMENT OF CHANGES IN EQUITY	21
8. ACCOUNTING POLICIES	22
9. NOTES TO FINANCIAL STATEMENTS	24
10. AUDITOR'S OPINION	29

CORPORATE GOVERNANCE STATEMENT

Name of the Institution

Sri Lanka Institute of Local Governance.

Date of Incorporation

15th Colombo 1999.

Registered Office

No. 17.

Malalasekara Mawatha,

Colombo 07.

Auditors

Auditor General.

Auditor General's Department,

Colombo 07.

Bankers

Bank of Ceylon.

Governing Council

The Governing Council of the Institution comprises 13 Members, eight of them are appointed Ex-officio and rest are appointed by the Hon. Minister.

The appointed Governing Council for 2002

1. Mrs. K.P.M. Speldewinde - Chairperson
Secretary,
Ministry of Home Affairs, Provincial Councils
& Local Government
2. Mr. Charita Ratwatte - Member
Secretary,
Ministry of Finance

3. Ms. D. Wimalasiri - Member
Secretary,
Ministry of Public Administration and
Management Reforms
4. Mr. W. D. Ailapperuma - Member
Secretary,
Ministry of Housing, and Plantation
Infrastructure
5. Mr. Thosapala Hewage - Member
Secretary,
Ministry of Environmental & Natural Resources
6. Prof. W.M.J.G. Mendis - Member
Senior Professor
University of Moratuwa
7. Mr. Daljith Aluwihare - Member
Private Secretary to the Minister of
Home Affairs, Provincial Councils and Local
Government
8. Mr. Gemunu Alawattegama - Member
Director
Urban Development and Low Income Housing
Project
9. Mr. A.P. Dainis - Member
10. Mr. D.M.T.B. Dissanayaka - Member
Director,
Sri Lanka Institute of Local Governance

Audit & Management Committee

Actions is being taken by the Governing Council to appoint the Audit & Management Committee in due course.

REVIEW OF OPERATIONS

Sri Lanka Institute of Local Governance was set up by a Parliamentary Act No. 31 of 1999.

The functions of the Institute are as follows –

- a) To provide training to the members and officers and servants of Provincial Councils and Local Authorities with a view to equipping them to perform their official duties efficiently and effectively;
- b) To conduct workshops and training courses on provincial and local government management;
- c) To award certificates to those who have successfully completed the training courses conducted by the Institute;
- d) To assist in the building up of a cadre of competent provincial and local government officers and personnel in the country, with a view to ensuring good governance;
- e) To make available to Provincial Councils and local authorities, the services of specialists in provincial and Local Government management;
- f) To assist Provincial Councils and Local Authorities in improving their organizational systems and management capability;
- g) To undertake consultancy assignments in the field of provincial and local government;
- h) To provide a forum for a critical appraisal of provincial and local government organizational management systems and practices;
- i) To assist Provincial Management Development Training Units and local authorities in, management development and the establishment of work norms, determination of compensation system, and generally, to improve their productivity;
- j) To collaborate with other organizations, in Sri Lanka or abroad having objects similar to those of the Institute;
- k) To sponsor and hold, conferences and seminars and to publish books and magazines, on provincial and local government.
- l) To provide necessary data and information to the Minister, for the purposes of formulating national policies on local government;
- m) To disseminate information of the functions and activities of the Institute to the relevant institutions and to the public;
- n) To conduct, promote and assist research into all aspects of provincial and local government.

To facilitate the achievement of these functional responsibilities, the Institute has constituted its,

1. Mission

To be the foremost National Agency in Local Governance for building capacity of sub National (Regional / Provincial) and Local Government Institutions through Advocacy, Training, Research and Consultancy services towards upliftment of the quality of life of the people.

2. Mandate

Institutional Strengthening and Capacity Building of Provincial Councils and Local Government Institutions.

3. Overall Objectives

To facilitate the institutional and management capacity building of Provincial Councils and Local Authorities for the efficient and effective provision of services to the people.

4. Specific Objectives

- a) To formulate and deliver a programme of capacity building activities for the institutional strengthening of local governance in partnership with Provincial MDTUs.
- b) To support and strengthen the capacity of MDTUs towards delivering training and development programmes for improving the performance of Provincial Councils and Local Authorities.
- c) To function as a resource center on Local Governance providing technical and information services for its stakeholders.
- d) To function as the local point for Local Governance networking with relevant National and International Institutions.
- e) To provide specialist support services in the development of human resources, improvement of management systems, and organizational change.
- f) To build the capacity of SLILG to provide Advocacy, Training, Consultancy and Research support for strengthening institutions of Local Governance.

In order to achieve these objectives the Institute has identified the following strategic directions in fulfilling its mission & objectives.

- ❖ Institutional capacity building
- ❖ Training and Consultancy services
- ❖ Research Studies on devolved governance
- ❖ Function as a resource centre
- ❖ Networking with national and international training and educational institutions.

A broad framework of activities has been identified and followed as a step to facilitate the take off, and new areas have been incorporated into the functional framework.

Human Capital

a) Cadre

The approved cadre is 33 and the present strength is 22. The steps which had been taken to fill the vacancies were kept in abeyance as a compliance to government policy.

However as directed by the Auditor General by his reports during past 02 years immediate action will be taken to establish an Internal Audit unit by way of recruiting an Audit Officer and a Cashier for the Finance Division.

Total cadre is given below:-

Summary of Cadre 2002

Division	Approved Cadre			Actual Cadre		
	Executive	Non. Executive	Total	Executive	Non. Executive	Total
Administration & Secretarial Division	03	07	10	02	06	08
Human Resources Development Div.	05	03	08	03	01	04
Engineering Division	01	-	01	01	-	01
General Management Division	02	-	02	02	-	02
Physical Planning Division	01	-	01	01	-	01
Financial Management Division	01	-	01	-	-	-
Legal Division	01	-	01	-	-	-
Research & Publication Division	03	02	05	02	01	03
Finance Division	02	02	04	02	01	03
Total	19	14	33	13	09	22

Cadre 2002 - Administration & Secretarial Division

Designation	Approved Cadre	Actual Cadre
Director	01	01
Secretary to the Director / Board	01	01
Administrative Officer	01	0
Chief Clerk	01	01
Receptionist	01	01
Driver	03	02
Messenger	01	01
K.K.S.	01	01
Total	10	08

Cadre 2002 - Human Resource Development Division

Designation	Approved Cadre	Actual Cadre
Additional Director (HRD)	01	01
Deputy Director (Training)	01	-
Programme Officer	01	01
Translator	02	01
Data Entry Operator / Stenographer	02	01
K.K.S	01	-
Total	08	04

Cadre 2002 - Engineering Division

Designation	Approved Cadre	Actual Cadre
Consultant (Engineering)	01	01
Total	01	01

Cadre 2002 – General Management Division

Designation	Approved Cadre	Actual Cadre
Consultant (General Management)	01	01
Computer Analysis \ Programmer	01	01
Total	02	02

Cadre 2002 – Physical Planning Division

Designation	Approved Cadre	Actual Cadre
Consultant (Physical Planning)	01	01
Total	01	01

Cadre 2002 – Financial Management Division

Designation	Approved Cadre	Actual Cadre
Consultant (Financial Management)	01	-
Total	01	-

Cadre 2002 – Legal Division

Designation	Approved Cadre	Actual Cadre
Consultant (Legal)	01	-
Total	01	-

Cadre 2002 - Research & Publication Division

Designation	Approved Cadre	Actual Cadre
Deputy Director (Research & Publication)	01	01
Research Assistant	01	01
Documentation Officer	01	-
Typist (E) / Clerk	02	01
Total	05	03

Cadre 2002 - Finance Division

Designation	Approved Cadre	Actual Cadre
Accountant	01	01
Accounts Assistant	01	01
Clerk	01	01
Computer Operator / Typist	01	-
Total	04	03

- b. The necessity to amend the cadre has now arisen. Therefore, action has to be taken with the relevant authorities.

Performance

Human Resource Development Programme

One of the main tasks assigned to the Sri Lanka Institute of Local Governance is to strengthen Provincial Councils and Local Authorities by providing training to accomplish their tasks efficiently and effectively. To achieve the objectives, the Sri Lanka Institute of Local Governance conducts the following workshops and training programmes.

- a) National level workshops and training programme
- b) Provincial level workshops and training programmes.
- c) Local level training programmes

This institute organizes the national level workshops and these workshops are conducted at training institutes in Colombo and outstations. Provincial level training programmes are organized by the Provincial Management Development Training Units with the facilitation of the SLILG. Local level training programmes are organized by the respective Local Authorities with the support of this Institute.

Among the training programmes the priority was given to train the newly elected members to the Local Authorities by the Local Government elections held in March 2002. As the first phase, all the elected members were called for one-day awareness programmes at district level. After that two-day residential workshops on “skills development” were

conducted for Chairmen / Vice Chairmen and Opposition Leaders. The support extended by the Provincial Management Development and Training Units in conducting these programme is appreciated.

A list of training programmes conducted within the year is given below:-

National Level Workshops and Training Programmes - 2002

Sel. No	Workshop / Training Programme	No. of Workshops / Training Programmes	Target Group	No of Benefi.
1	Workshop on Community Participation and Good Governance	01	Heads of MDTUs, PCLGs, Community Development Officers, Development Officers	30
2	Workshop on Communication and Skill Development Community Development	01	Community Development Officers, Development Officers, Journalists	45
3	Workshop on Horizontal Linkages between LAs and Divisional Secretaries	01	Divisional Secretaries, Assistant Divisional Secretaries, Heads of LAs, Secretaries of LAs, Community Development Officers, Assistant Directors (Planing)	39
4	Certificate Course on Environmental Management	01	Environmental Officers of LAs	60
5	Workshop on Preparation of the Budget of Las	01	Accountants, Book Keepers, Investigation Officers of LAs	40
6	Certificate Course on Formulation of By-Laws	03	Secretaries and Development Officers of LAs	110
7	Training Programme on Project Planning	01	Department Heads of North Central Province	30
8	Training Programme on Environmental Management	02	Environmental Officers of LAs	80
9	Workshop on Data Collection for Database	04	Secretaries and DOs of LAs	190
10	Workshop on Legal and Administrative Constraints Confronting PCs	01	MDTU Heads, PCLGs, Ministry staff	10
11	Awareness programme for Newly Elected Members of Ls	15	Newly Elected Members of LAs	2980
12	Skill Development Programme for Newly Elected members of Las	08	Chairmen, vice Chairmen, Opposition Leader of LAs	426
	Total	39		4040

Provincial Level Workshops and Training Programmes – 2002

Sel. No	Workshop / Training Programme	No. of Workshops / Training Programmes	Target Group	No of Benefi.
1	Technical Training and work supervisor's training Programme	27	Technical Officers and Work Supervisor's	1400
2	Secretarial and Committee Activities	01	Secretaries of LAs	53
3	Awareness Programme for Newly Secretaries of LAs	02	Newly recruited Secretaries of LAs	78
4	Responsibilities and duties of LAs and Women's Participation for Sustainable Development through Good Governance	01	PCLGs, Community Development Officers, IOs, Development Officers	67
5	Training Programme on Revenue Collection of LAs	03	Secretaries and Revenue Officers of LAs	201
6	Training Programme on Improvement of Efficiency and Effectiveness of Library Staff	02	Library Staff of LAs	120
7	Training Programme on Improvement of Efficiency and Effectiveness of Development Officers	01	Development Officers of LAs	45
8	Training programme on Internal Auditing process	03	Secretaries, Book Keepers, Accounts Clerk of LAs	153
9	Training Programme on Duties and Responsibilities of Local Government Officers in Development Process	01	Local Government Officers	35
10	Training programme on Management process	01	Staff of LAs	107
11	Training programme on Financial Management	02	Secretaries, Accounts Clerks, Book Keepers and Subject Clerks	98
12	Training Programme on New Education Reforms process and Development of Pre-school	01	Per-school Teachers of LAs	68
	Total	45		2425

Local Level Workshops and Training Programmes – 2002

Sel. No	Workshop / Training Programme	No. of Workshops / Training Programmes	Target Group	No of Benefi .
1	Training Programme on Local Government Administration	02	Chairmen / Councilors and the Staff	78
	Total	02		78

Formulation of By-laws for Local Authorities

By-laws are of utmost importance to regulate the management and administration and also for the revenue generation of Local Authority. But many LAs faced problems in the drafting of by-laws. Taking these factors into account the Sri Lanka Institute of Local Governance has initiated a programme to prepare a set of Model By-laws to match the current requirements of Local Authorities. There are about 70 areas that have been identified as the areas that by laws are needed and the preparation of model by-laws has now been started. The 10 Model by-laws mentioned below has been prepared as the first set and a guideline for the formulation of by-laws was also prepared.

List of by-laws prepared as models.

- a) The supervision and control of itinerant vendors.
- b) The seizure of stray cattle
- c) The prevention and the destruction of mosquitoes and disease bearing insects;
- d) The decorating of roads and path in Pradeshiya Sabha areas.
- e) The regulation, supervision, inspection and control of lodging houses.
- f) The regulation and control of the crematorium.
- g) The regulation, supervision, inspection, control and licensing of offensive or dangerous trade.
- h) The regulation and control of the public gathering places.
- i) The control of parking of motor vehicles, by providing parking places and collecting the prescribed fees for parking such motor vehicles.
- j) The compelling of owners of hotels, restaurants and eating houses registered under the Tourism Development Act no. 14 of 1968 to furnish necessary particulars for the purpose of charging of fees.

Research and Publication

Research Studies

1. Research study on “Conflict Resolution and Local Governance”

The objective of the research is to explore the role, strength, weaknesses and potentials of actors of the local Governance system to contribute to the management of the diverse conflicts that not only adversely affect society and the economy, but also aggravate the ethnic conflict.

Progress

Study completed and output discussed at a workshop on 10th December 2002 in Colombo. The outcome at the discussion has been documented. This document is ment to be a Research product of the institute. It not only includes the initial studies. But will embody the research of the discussion process that will go into completing the study as a knowledge and expertise based publication.

This publication is also ment to strengthen the Ministry of local government in the policy build up at the Ministry level this is in keeping with the purposes for which this institute has been set up.

2. Research study on “Legal and Administrative Constraints Confronting Provincial Councils”

Devolution practitioners are of the view that devolved governance in constrained due to legal and administrative problems. The study examined this “popular” hypothesis on the effectiveness of Provincial Councils in bringing about devolution envisaged by the Thirteenth Amendment to the constitution.

Progress

The study completed and document printed.

This study does not reflect a one sided view of constraints. It high lights the non-performance on the put of the centre and also the provincial setup. This document will impact greatly on the provincial conceptualization of Provincial Councils and also ensure the direct participation of the centre in a strengthening process.

It is ment to be further studied at the Ministry level which can reduce the tension between the PCC and the centre and lead to policy decisions favoring both.

3. Action Research project to develop selected local Authorities as model Local Government Institutions.

Progress

50% of the study completed and rest to be continue in year 2003 with new objectives.

The intention of the programme is to highlight effectiveness and efficiency in the service delivery in Local Government institutions by improving their management capabilities in Administration, Finance, Advocacy Research and Training.

The expectation will be to replicate good performance, best practices in the local government sector. These models will ensure commitment towards elements and bring out success stories. This would even result in whether legal and organization rethinking is necessary to develop local government, and strengthen the execution of peoples expectations.

4. Collection of basic information on best practices in Local Authorities.

Objective is to identify the on going activities to do further studies and disseminate the gathered experiences among other LAA.

Progress

Survey completed to collect basic information on best practices in local Authorities.

Replication of best practice is now a world phenomena. Hence a total study of this topic will evince interest not only in the country. There is a great demand internationally for results of survey of this nature.

The survey has been based on the relevance seen after discussions with local authorities. Such inquiry has incased the commitment of LAA in producing best practices and showing results.

This will be continued in 2003.

Publications

1. Legal structure for Local Authorities in Sri Lanka – Prepared by Mr. Asoka Gunawardene
 - a) Original Document in English printed and published
 - b) Document translated to Tamil and in the process of printing.
 - c) Document is been translated in to Sinhala
 - d) Donor funding has been sought to publish the Sinhala and Tamil translations
2. “Socio-Economic Surveys for Development” (A guide for Researchers) The researcher in the field was Dr. Dharmawardene Gamage, Development Sociologist at HARTI. Document printed for distribution.
3. Guidelines prepared for the training programmes of newly elected members. The document (both in Sinhala and Tamil) is printed and distributed among all LAA in Sri Lanka. Preparation of the documents was an initiative of Research Division of Sri Lanka Institute of Local Governance in coordination with experienced persons, on the subject.
4. “Palath Palana Puwath” 2nd and 3rd issue of 4th volume is printed and distributed.
5. 2nd issue of journal “Governance” is printed to be distributed.

General Management

The training and consultancy activities performed by the General Management Division, which is headed by Consultant (General Management) is given below. SLILG was successful in obtaining the assistance of UN – HABITAT to implement several Management programmes for the year 2002.

With the funds provided by them, studies were conducted at several Local Authorities, namely Negombo, Wattala / Mabola, Kolonnawa, Panadura and Moratuwa to identify the future needs in Management of LAA.

As a result, toolkits that had been developed by UN-Habitat based on their work experience in other countries were modified to suit the local scenario.

As a further step towards systematic development of training programmes, based on the above studies, twelve Management Modules are in the process of being developed.

These are :

- Management Information System
- Conflict Resolution
- Motivation
- Action Planning
- Social Mobilisation
- Project Management
- Communication
- Productivity Improvement
- Group Dynamics
- Organization Development
- Monitoring and Evaluation
- Effective Meetings

These modules will be used as guidelines to implement Training Programmes next year.

Several National and Provincial workshops were conducted by the Management Division during this year in addition to participating and contributing at City Consultations held by Sri Jayawardenapura Kotte MC, Negombo MC and Kolonnawa UC.

National workshop on “Empowerment of LAs with Civil Society Participation”, “Good Governance” and “Budgeting” proved very successful.

At provincial level, in addition to the Management programmes conducted by the MDTUs with our approval and participation, SLILG also conducted a programme on “Project Planning” in the North Central Province.

The Consultant – General Management also has participated at several seminars conducted by other Ministries and institutions as resource person in addition to representing SLILG in the “Urban Governance Facilitation Committee” chaired by the Secretary to the Ministry of Housing and Plantation Infrastructure and in The National Task Force on Corporate Governance set up by the Commonwealth Secretariat.

Engineering Consultancies

The trainings and allied activities performed by the engineering division, which is headed by Consultant (Engineering) during the year as given below. The activities in this division were launched in 03 sections.

1. Skills developments and knowledge enhancement of Technical Officers attached to Local Authorities
2. Training Programmes conducted under sponsorships of other organizations.
3. Programme designed for updating of knowledge and skills enhancement of Engineers attached to Provincial Councils.

Major disciplines covered are (for Local Authority TOs / SWs)

- ❖ The Acts, Ordinances, Rules, Regulations and By-laws relevant to Technical Officers of Local Authorities
- ❖ Building Construction and Maintenance
- ❖ Road Construction and Maintenance
- ❖ Water Supply and Drainage
- ❖ Solid Waste Management and Garbage Disposal
- ❖ Vehicles and Heavy Equipment Maintenance
- ❖ Project Planning and Implementation

Major disciplines covered are (for Provincial Council Engineers)

- ❖ General Administration
- ❖ Contract Administration
- ❖ Tender Procedures
- ❖ Devolution Process

1. Training Programme /Workshop	Province	No of Programmes	No of Participants
1. Impact Assessment of Technical Officers & SWs Training	Central	02	21
2. Technical Officers / SWs Training	Central	06	208
3. Technical Officers / SWs Training	Southern	04	205
4. Technical Officers / SWs Training	Uva	06	117
5. Technical Officers / SWs Training	Sabaragamuwa	06	205
6. Training of Engineers	Sabaragamuwa	01	28
7. Training of Engineers	North – Central	01	30
8. Technical Officers / SWs Training	North – Central	02	67
9. Technical Officers / SWs Training	North – East	06	135
10. Technical Officers / SWs Training	Western	02	70
11. Technical Officers / SWs Training	North – Western	10	195
12. Training of work supervisors	North – Western	06	190

2. SLILG was not able to neither conduct nor financially assist any training programme scheduled for final quarter of the year under review, as its all allocations were over. This became a great barrier to the smooth conduct of Institutions functions as planned. In such a situation certain organizations. Voluntarily agreed to sponsor some SLILG Training activities as detailed below.

Programme	Date	Location	Sponsored Organization
1. Technical Training Sabragamuwa (Sabaragamuwa Province)	10.10.02	Ratnapura	Sabaragamuwa Provincial Council
2. Technical Training Sabragamuwa (Sabaragamuwa Province)	11.10.02	Kegalle	- do -
3. Technical Training (Central Province)	01.11.02	Kandy	S-Lon Lanka Co. (Pvt.) Ltd.
4. Trainin of LA representatives (Anuradhapura District)	22.11.02 to 24.11.02	Dambulla	Voice of Youth
5. Training of Elected representatives (Monaragala & Badulla District)	05.12.02 to 07.12.02	Nuwara Eliya	Voice of Youth

3. Programmes Designed for updating of knowledge of Engineers.

For the purpose of up dating of knowledge and skills enhancement of Engineers attached to Provincial Councils, following actions were taken during the year.

- a) Analysis of Training Needs
- b) Finalizing of Training Needs
- c) Preparation of Training Modules.

Physical Planning

The approval of the cabinet was granted on 10.09.2002 to appoint a consultant for physical planning division and the appointee assumed duties on 01st November 2002. Consequently during under review the period consultant had formulated the "Concept paper" for consideration by the Governing Council, as a prelude to the preparation of a detailed Action Plan.

Financial Management

The approval of the Governing Council was granted to recruit a consultant for financial management and action is being taken.

FINANCIAL INFORMATION

Financial activities in the year under review are given below.

Government Grant

Recurrent Expenditure	Rs.	7,325,151
Human Resource Development Expenditure	Rs.	3,078,086
Capital Expenditure	Rs.	<u>301,762</u>
Total	Rs.	<u>10,704,999</u>

Analysis of Expenses

1. *Human Resource Expenses*

<u>Programme</u>		<u>Cost Rs.</u>
a) National Level Training Programme	Rs.	1,537,870
b) Provincial Level Training Programme	Rs.	814,640
c) Capacity Building of SLILG	Rs.	288,949
d) Research, Library and Publications	Rs.	<u>436,628</u>
Total	Rs.	<u>3,078,087</u>

2. *Capital Expenditure*

i). Leasehold Land	Rs.	231,832
Machinery and Office Equipment	Rs.	<u>69,930</u>
Total	Rs.	<u>301,762</u>

- ii). It was not possible to commence the construction of the building due to non allocation of funds.

3. *Projects*

The following projects which were in progress have been completed during the year under review.

- | | | |
|--|---|---------|
| a) Area Based Growth with Equity Programme | | |
| b) Urban Development Law Income Housing Project. | - | Phase I |
| c) Sustainable Cities Programme | - | Phase I |

4. *Staff Welfare Fund*

On the approval of the Council an amount of Rs. 734,236.39 have been transferred to staff welfare fund which had been created for the purpose of payment of staff loans to employees as done in the past. Further it is note that the Institution has not claimed any amount of money from the treasury for payments of staff loan during the year under review. The fund is utilized only for the payment of staff loans.

INCOME STATEMENT

For the year ended 31st December 2002

	<u>Notes</u>	<u>31/12/2002</u>	<u>31/12/2001</u>
<i>Government Contribution – Recurrent</i>		10,403,238	15,261,695
<i>Other Income</i>	01	4,141,471	1,149
<i>Total Income</i>		14,544,709	15,262,844
<i>Administration & Establishment Expenses</i>	02	(7,807,647)	(8,132,189)
<i>Human Resources Development Expenses</i>	03	(3,078,086)	(5,925,470)
<i>Project Expenses</i>	04	(1,540,068)	-
<i>Provisions</i>	05	(849,204)	(255,860)
<i>Total Expenses</i>		(13,275,005)	(14,313,519)
<i>Surplus Transferred to Accumulated Fund.</i>		1,269,703	949,326

BALANCE SHEET

As at 31st December 2002

	<u>Notes</u>	<u>31/12/2002</u>	<u>31/12/2001</u>
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	06	16,618,813	15,579,744
Current Assets			
Stocks	07	722,358	-
Pre – Payments	08	1,363,666	1,129,186
Staff Debtors & Advances	09	953,462	335,960
Advances – Others	10	68,600	97,540
Cash at Bank	11	2,493,613	1,871,848
		<u>5,601,701</u>	<u>3,434,535</u>
Total Assets		<u>22,220,514</u>	<u>19,014,279</u>
EQUITY & LIABILITIES			
Government Contribution – Capital		17,494,024	15,755,251
UNDP Grant		452,500	-
		<u>17,946,524</u>	<u>15,755,251</u>
Accumulated Fund		2,440,625	1,170,922
		<u>20,387,149</u>	<u>16,926,173</u>
Non Current Liabilities			
Staff Welfare fund	12	1,259,421	525,185
Retirement Benefit Obligations	13	260,000	153,000
		<u>1,519,421</u>	<u>678,185</u>
Current Liabilities			
Provisions - Audit Fees		90,000	-
Creditors & Accrued Charges	14	223,944	145,223
		<u>313,944</u>	<u>145,223</u>
		<u>22,220,514</u>	<u>19,014,279</u>

CASH FLOW STATEMENT

For the year ended 31st December. 2002

	<u>31/12/2002</u>	<u>31/12/2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Operating Activities</i>		
Surplus	1,269,703	8,477,631
<i>Adjustments for :</i>		
Depreciation	712,204	162,860
Provisions – Gratuity	107,000	93,000
Provisions - Audit Fees	30,000	-
Operating Surplus before working capital changes	<u>2,118,907</u>	<u>8,733,490</u>
<i>(Increase) / Decrease in Inventories / Debtors / Other Receivables</i>	(557,522)	(1,096,559)
<i>Increase / (Decrease) in Creditors / Payables</i>	812,957	414,084
Cash Generated from Operations	<u>2,374,342</u>	<u>8,051,015</u>
Gratuity Paid	-	-
Audit Fees Paid	-	-
Net cash from operating activities	<u>2,374,342</u>	<u>8,051,015</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property	(301,762)	(7,528,305)
Prior year Assets Transfers (Adjusted with Gout. Contribution)	(1,450,814)	-
Net movement during the year	<u>621,765</u>	<u>522,710</u>
Cash & Cash Equivalents at the beginning of period	1,871,848	1,349,138
Cash & Cash Equivalents at the end of Period Note 'A'	<u><u>2,493,613</u></u>	<u><u>1,871,848</u></u>
Note 'A'		
Cash at Bank	2,493,613	1,871,848
Cash in Hand	-	-
Bank Overdraft	-	-
	<u><u>2,493,613</u></u>	<u><u>1,871,848</u></u>

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December. 2002

<u>Description</u>	<u>Accumulated Fund</u> <u>Rs.</u>
<i>Balance as at 01/01/2002</i>	16,926,172.80
<i>Prior year Adjustment</i>	<u>(15,755,251.06)</u>
<i>Adjusted Balance as at 01/01/2002</i>	<u>1,170,921.74</u>
<i>Surplus for the period</i>	<u>1,269,703.30</u>
<i>Balance as at 31/12/2002</i>	<u><u>2,440,625.04</u></u>

ACCOUNTING POLICIES

1. GENERAL ACCOUNTING POLICIES

- 1.1 Financial statements of the institution are prepared in accordance with generally accepted accounting principles on a historical cost basis.
- 1.2 No adjustments had been made for inflationary factors affecting the accounts in the primary financial statements.

2. ASSETS AND BASIS OF THEIR VALUATION

- 2.1.1 Fixed Assets are normally valued at cost.
- 2.1.2 Certain assets had been transferred from Ministry of Provincial Council and Local Government without any cost. As per the information's available the said assets were purchased before 1995. Therefore they were treated as fully depreciated but decided to shown in record with a residual value of Rs. 100/- per each.
- 2.1.3 Among the items transferred from Ministry of Provincial Council and Local Government certain items were appeared immaterial in pricing. A decision was taken to continue these items only on quantity basis in records without a valuation.
- 2.1.4 Depreciation is not provided in the year of acquisition or commissioning.
- 2.1.5 Depreciation is charged on all assets on a straight-line basis.
- 2.1.6 For the purpose of depreciations, the effective life time assets are as given below.

<u>Category of Assets</u>	<u>Life time Years</u>	<u>Depreciation rate</u>
a.) Machinery and Office Equipment	10	10%
b.) Computers and allied Accessories	05	20%
c.) Vehicles	05	20%
d.) Leasehold Lands	50	02%

3. LIABILITIES AND PROVISIONS

3.1 *Terminal Benefits*

A provision of Rs. 260,000.00 had been made in the accounts for terminal benefits under the Gratuity Act. No. 12 of 1983 and this had been grouped under Non-current liabilities in the Balance Sheet.

3.2 *Workmen Compensation*

A Workmen Compensation Insurance Fund is not in operation.

4. CAPITAL EXPENDITURE

Expenditure incurred for the purpose of acquiring, extending or improving assets of a permanent nature by means of which to carry on the objectives or for the purpose of increasing the earning capacity has been treated as Capital Expenditure.

5. PRIOR YEAR ADJUSTMENTS

For rectification of fundamental errors which were made in prior years as well as the effective on the changes in depreciation policy, the prior year adjustments have been made in the accounts concerned. In order to execute the said exercise "Government Contribution Capital" Account was created in the General Ledger.

NOTES TO THE ACCOUNTS

For the year ended 31st December. 2002

	<u>31/12/2002</u>	<u>31/12/2001</u>	
<u>Note 01 - Other Income :-</u>			
1505 – 01	Miscellaneous income	430,219	450
1505 – 02	Interest on Loan to Employees	903	699
1505 – 03	Non Refundable Deposits	12,600	-
2101 – 01	Urban Development Low Income Housing Project	3,375,291	-
2101 – 02	Area Based Growth with Equity Programme	222,458	-
2101 – 04	Sustainable Cities Programme	100,000	-
	Total	4,141,471	1,149

Note 02 - Administration & Establishment Expenses :-

1503 - 01 - 01	Personal Emoluments – Salaries & Wages	3,109,065	3,131,012
1503 - 01 - 02	Personal Emoluments - E. P.F	527,809	432,049
1503 - 01 - 03	Personal Emoluments - E. T.F	78,900	65,208
1503 - 01 - 04	Personal Emoluments – Holiday Payments & O.T	93,525	91,082
1503 - 01 - 05	Personal Emoluments - Other Allowances	98,625	254,794
1503 - 02 - 01	Travelling Expenses - Local	79,977	96,720
1503 - 02 - 02	Travelling Expenses – Foreign	-	140,713
1503 - 03 - 01	Supplies – Stationary	182,627	283,245
1503 - 03 - 02	Supplies - Fuel Lubricants	288,582	237,118
1503 - 04 - 01	Maintenance Expenses - Vehicles	319,246	296,065
1503 - 04 - 02	Maintenance Expenses - Plant, Machinery & Equ.	205,735	112,984
1503 - 05 - 01	Contractual Services – Rent	1,800,000	1,800,000
1503 - 05 - 02	Contractual Services - Telephone	298,170	380,570
1503 - 05 - 03	Contractual Services - Postal Charges	18,434	35,674
1503 - 05 - 04	Contractual Services - Water & Electricity	346,211	196,495
1503 - 05 - 05	Contractual Services - Newspapers & Periodicals	15,316	6,341
1503 - 05 - 06	Contractual Services - Security Service	223,763	255,218
1503 - 05 - 07	Contractual Services – Others	121,662	209,332
1503 – 06	Other Recurrent Expenses	-	107,570
	Total	7,807,647	8,132,189

	<u>31/12/2002</u>	<u>31/12/2001</u>
<u>Note 03 - Human Resources Development Expenses :-</u>		
2201 - 05 - 01 National Level Training Programme	1,537,870	2,596,170
2201 - 05 - 02 Provincial Level Training Programme	814,640	2,607,832
2201 - 05 - 03 Capacity Building of SLILG	288,949	124,724
2201 - 05 - 04 Research, Library & Publications	436,628	596,743
Total	<u>3,078,086</u>	<u>5,925,470</u>

Note 04 - Project Expenses :-

1504 – 01 Urban Development Low Income Housing Project	1,226,139	-
1504 – 02 Area Based Growth with Equity Programme	215,769	-
1504 – 04 Sustainable Cities Programme	98,160	-
Total	<u>1,540,068</u>	<u>-</u>

Note 05 - Provisions :-

2102 – 01 Provisions – Gratuity	107,000	93,000
2102 – 02 Provisions - Audit Fees	30,000	-
2105 – 02 Depreciation - Machinery & Office Equipment	409,979	162,860
2105 – 04 Depreciation - Leasehold Land	302,225	-
Total	<u>849,204</u>	<u>255,860</u>

Note 06 - Property, Plant & Equipment :-

	<u>Cost as at 01/01/2002</u>	<u>Additions 2002</u>	<u>Removals 2002</u>	<u>Depreciation 2002</u>	<u>Accumulated Depreciation</u>	<u>W.D.V. as at 31/12/2002</u>	<u>31/12/2001</u>
2201 - 01 Vehicles	400	-	-	-	-	400	-
2201 - 02 Machinery & Office Equipment	2,768,433	69,930	-	409,979	1,028,962	1,809,400	700,339
2201 - 04 Leasehold Land	14,879,405	231,832	-	302,225	302,225	14,809,013	14,879,405
Total	17,648,238	301,762	-	712,204	1,331,187	16,618,813	15,579,744

		<u>31/12/2002</u>	<u>31/12/2001</u>
<u>Note 07 - Stocks :-</u>			
2202 - 01	Stocks – Stationery	118,372	-
2202 - 02	Stocks – Publication	603,986	-
	Total	<u>722,358</u>	<u>-</u>

Note 08 - Pre - Payments :-

2206 - 01	Insurance	28,308	16,728
2206 - 02	Rent, Post Master General & Others	958,859	460,827
2206 - 03	Margin Account - Bank of Ceylon	376,500	651,632
	Total	<u>1,363,666</u>	<u>1,129,186</u>

Note - 09 - Staff Debtors & Advance :-

2203 - 01	Staff Debtors	9,650	1,192
2204 - 02	Special Advance	900	-
2204 - 04 -	Festival Advance	8,400	9,400
2204 - 05	Staff Loan	934,512	325,368
	Total	<u>953,462</u>	<u>335,960</u>

Note - 10 - Advances - Others :-

2205 - 04	Advance to Foreign Travels	68,600	97,540
		<u>68,600</u>	<u>97,540</u>

Note - 11 - Cash at Bank :-

2207 - 02	Bank of Ceylon - A/C No. 2502	277,838	1,148,152
2207 - 03 -	Bank of Ceylon - A/C No. 2618	1,899,106	523,880
2207 - 04	Servings Account - Bank of Ceylon - A/C2725	316,670	199,817
	Total	<u>2,493,613</u>	<u>1,871,848</u>

	<u>31/12/2002</u>	<u>31/12/2001</u>
<u>Note - 12 - Staff Welfare Fund Account :-</u>		
Balance as at 01/01/2002	525,185	-
Transfer During the Period	734,236	525,185
Balance as at 31/12/2002	<u>1,259,421</u>	<u>525,185</u>

<u>Note - 13 - Retirement Benefit Obligations :-</u>		
Balance as at 01/01/2002	153,000	60,000
Provisions During the Period	107,000	93,000
Balance as at 31/12/2002	<u>260,000</u>	<u>153,000</u>

<u>Note - 14 - Creditors & Accrued Charges :-</u>			
2103 - 01	Accrued Charges	193,944	105,223
2104 - 02	Deposits – Tender	30,000	40,000
	Total	<u>223,944</u>	<u>145,223</u>

AUDITOR'S OPINION

Report of the Auditor General on the Accounts of the Sri Lanka Institute of Local Governance for the year ended 31 December 2002 in terms of Section 14 (2) (c) of the Finance Act, No. 38 of 1971

The audit of accounts of the Sri Lanka Institute of Local Governance for the year ended 31 December 2002 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. My 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.

1:2 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgements made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. 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 the extent of the Audit.

2. Accounts

2:1 Audit Opinion

Except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that the financial statements have been satisfactorily prepared to present fairly in all material respects, the financial position of the Institute as at 31 December 2002 and the results of its operations for the year then ended in accordance with Sri Lanka Accounting Standards and the stated accounting policies as set out in Notes 1 to 5 in the financial statements.

2.2 Comments on Accounts

2.2.1 Accounting Deficiencies

Accounting deficiencies aggregating to Rs. 109,873 observed at the audit test checks of the draft accounts were brought to the notice of the Institute. The corrected accounts were furnished subsequently. However, the possibility of such deficiencies in the areas not covered by the test checks cannot be ruled out.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules Regulations etc.	Non-compliance
(a) Finance Act, No. 38 of 1971 Section 8	The budget had not been approved to the stipulated date.
(b) Financial Regulations FR 133, 880 and 881	An internal Audit System had not been introduced while security had not been obtained from officers who should furnish security
(c) Public Finance Circular No. PF/PE 03 of 19 November 1999	Audit and Management Committee had not been established
(d) Public Finance Circular No. PF / PE 05 of 11 January 2000	A sum of Rs. 60,000 at the rate of Rs. 10,000 per month in addition to the Salary and a transport allowance of Rs. 14,467 had been paid to a Consultant of the Institute without requisite approval

3. Financial and Operating Review

3.1 Financial Results

Government contribution of Rs. 10,705,000 comprising Rs. 7,230,000 for recurrent expenditure and Rs. 3,475,000 for capital expenditure had been received during the year under review. A sum of Rs. 10,403,238 which included Rs. 3,173,238 on human resources development spent from capital grant had been treated as income. Therefore the income over expenditure for the year amounted to Rs. 1,269,703.

3.2 Performance

(a) Workshops and Courses

Particulars of training, workshops and seminars conducted during the year under review are given below.

	2002			2001		
	Number of work shops	Number of officers Benefited	Expenditure	Number of workshops	Number of officers Benefited	Expenditure
National Level Training Programme	29	2107	1,504,569	21	805	1,679,423
Provincial Level Training programmes	45	2124	774,622	137	5,730	2,607,832

(b) Project Activities

(i) Urban Development Low Income Housing Project (UDLIHP)

The Project for providing training in Financial Management to 17 selected Local Authorities in terms of the contract agreement valued at Rs. 6,451,800 and during three years 2000 to 2002 entered into between the Institute and the Ministry of Urban Development, Housing and Construction had been completed.

(ii) **Area Based Growth with Equity Project (ABGEP)**

Financial Management and Secretarial Training Programmes had been conducted for 12 selected Local Authorities in the Uva Province by utilizing Rs. 215,769 from the balance of Rs. 222,458 remaining from the money received from the Ministry of Plan Implementation during the year 2001.

(iii) **Sustainable Cities Development Programme (SCDP)**

A grant of Rs. 625,000 had been agreed for the preparation of 20 modules under the Sustainable Cities Development Programme and the United Nations Development programme. A sum of Rs. 100,000 had been received during the year under review and a sum of Rs. 98,160 had been spent on co-ordination fees and other expenditure. However, only 12 out of the 20 modules had been completed as at 31 January 2003.

3.3 Idle Assets

Although a block of land 89.99 perches in extent had been acquired for Rs. 15,111,237 on a 50 year lease agreement with Urban Development Authority for the construction of an office complex for the Institute. The construction work had not been commenced even up to 28 February 2003.

3.4 Personnel

The approved cadre and actual cadre of the Institute as at 31 December of the year under review and the preceding year are given below.

Category of Personnel	Approved Cadre	Actual Cadre	
		2002	2001
Executives	19	13	13
Clerical & Allied			
Services	08	05	04
Minor Grades	06	04	05
	<u>33</u>	<u>22</u>	<u>22</u>

3.5 Budgetary Control

Significant variances between the budgeted and the actual income and expenditure were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

4. Systems and Controls

Special attentions needed in respect of the following areas of controls.

- (i) Budgetary Control
- (ii) Security Deposits
- (iii) Grant and Settlement of Advances
- (iv) Internal Audit
- (v) Training Programmes.

S.C.MAYADUNNE
AUDITOR GENERAL