

## **Lakshman Kadirgamar Institute of International Relations and Strategic Studies – 2015**

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The audit of financial statements of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 10 (3) of Sri Lanka Institute of Strategic Studies Act No. 45 of 2000 as amended by Sri Lanka Institute of Strategic Studies (Amendment) Act No. 32 of 2006 . My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act, appear in this report.

### **1:2 Management’s Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1:3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI-1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2:2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Accounting Policies**

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The following observations are made.

- (a.) Even though the financial statements of the Bandaranayake International Diplomatic Training Institute had disclosed that the income from the course fees was brought to accounts on accrual basis, that income had been accounted on cash basis in the financial statements of the year under review.
- (b.) The policy of including the grants annually given by the Treasury for capital expenditure, in the statement of financial performance as recurrent grants, had been followed continuously. Therefore, non-current assets valued at Rs. 904,722 acquired by utilizing the capital grants, had not been shown in the financial statements, and accounting deficiencies such as, failure to account the depreciation thereon, utilization of capital grants amounting to Rs. 3,191,793 on recurrent expenditure, and inclusion of an unutilized sum of Rs. 2,694,865 in the profit of the year, were observed.

#### **2.2.2 Accounting Deficiencies**

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The accrued expenses and payments made in cash for the Employee's Provident Fund and Employee's Trust Fund of the Institute during the year under review totaled Rs. 445,147. However, according to the financial statements, it was shown as Rs. 487,069. As such, a sum of Rs. 41,992 had been overstated.

### **2.3 Accounts Receivable and Payable**

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Action had not been taken even in the year under review to settle accrued entertainment expenses of the year 2014 amounting to Rs. 62,000.

### **2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions**

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The following instances of non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

**Reference to Laws, Rules, and Regulations**

**Non-compliances**

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| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka      |   |
| (i) Financial Regulation 177(1)  | Money received should be remitted to the bank daily or at the earliest possible opportunity. Nevertheless, delays ranging from 03 to 50 days were observed in remitting the income from the course fees of the Bandaranayake International Diplomatic Training Institute to the bank.   |
| (ii) Financial Regulation 341(1)   | The Institute had not maintained a register in terms of Financial Regulations to record the receipts of Counterfoil Books being used, and related activities.   |
| (iii) Financial Regulation 371 (2) (c)   | Advances should be settled immediately after the completion of the purpose for which it is granted. Nevertheless, the Bandaranayake International Diplomatic Training Institute had settled the advances totalling Rs. 380,000 given to the Course Coordinator in 03 instances, by retaining 60 – 70 per cent of the sum over a period of 06-24 days. |
| (b) Treasury Circular, No. 842 dated 19 December 1978                            | A Register of Fixed Assets had not been maintained in respect of fixed assets of the Institute and the Bandaranayake International Diplomatic Training Institute valued at Rs. 13,410,412 as at 31 December of the year under review.   |
| (c) Public Enterprises Circular, No. PED/ 12 dated 02 June 2003<br>Section 9.3.1 | Action had not been taken to obtain the approval of the Ministry and the Treasury by preparing a scheme of recruitment and promotion  |

**3. Financial Review**

**3.1 Financial Results**

According to the financial statements presented, the financial result of the Institute for the year ended as at 31 December of the year under review, had been a surplus of Rs. 8,490,821 as compared with the corresponding surplus of Rs. 4,339,517 for the preceding year, thus indicating an improvement of Rs. 4,151,304 in the financial result for the year under review. Even though other income had decreased by a sum of Rs. 4,694,690 whilst expenses on supplies and consumptions had increased by Rs. 2,788,831 as compared with the preceding year, the decrease in the expenditure on staff by Rs. 2,346,923 and other expenses by Rs. 5,013,781 whilst the income from the course fees had increased by Rs. 5,018,871, had mainly attributed to the increase in the surplus.

An analysis on the year under review and 04 preceding years revealed that despite the financial deficit resulted in for the year 2011, a financial surplus had continuously resulted in during the ensuing years. However, by considering the employee remuneration and the depreciation on non-current assets, the contribution of the Institute for the year 2011 amounting to Rs. 3,308,884, had continuously improved reaching Rs. 16,640,237 in the year under review.

#### **4. Operating Review**

##### **4.1 Performance**

(a.) In terms of Section 05 of the Sri Lanka Institute of Strategic Studies (Amendment) Act No. 32 of 2006, the activities of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies, are as follows.

- Provide information and data to the Government in relation to issues which may be required as a basis for the formulation and structuring of national policies relating to international relations and strategic studies, including information relating to defence, national security, law, economics, cultural relations, agriculture and environment.
- Promote and assist research in strategic studies and international relations, and facilitate the training of personnel who undertake such research and studies.
- Provide a forum for discussion, analysis and evaluation of research in strategic studies and international relations in so far as the same are connected to Sri Lanka, and facilitate the carrying out of joint studies, seminars and workshops on such subjects both within the region and internationally.
- Establish a repository of information including a library dedicated to strategic studies and international relations.
- Publish journals and articles on matters falling within the purview of the Institute.
- Maintain relationships and affiliations with individuals, associations, governmental and non-governmental institutions with similar objects in Sri Lanka as well as in other countries.
- Conduct training programmes on diplomacy, international relations and any other related area which the Board considers appropriate.

Only 05 lectures and 07 discussions had been held by the Institute in the year under review relating to strategic studies and international relations, in order to accomplish the objectives of the Act. It could not be confirmed therefrom that a satisfactory contribution had been made to accomplish the said objectives.

(b.) In terms of Section 10 (e) of the Act, the Bandaranayake International Diplomatic Training Institute should function as a unit of the Lakshman Kadirgamar Institute to conduct training programs and other study programs. The following observations are

made in connection with the training programs and other study programs conducted in such a manner.

- (i) As mentioned in the scheme of study, only graduates, professionals, executive officers of public and private sector, and those who intend to be employed in the Foreign Service, are eligible to enroll for the Diploma in Diplomacy, and International Relations. Nevertheless, 22 persons who had passed GCE (AL), and a student who had passed GCE (OL) had been enrolled for the Diploma course during the year under review.
- (ii) Approval had been granted by the acting Director General for 04 officers of the Embassy of Maldives, and 07 officers of the Ministries to enroll for the Diploma in Diplomacy and International Relations, commenced in the year 2015, whilst 03 officers of the Ministry had been granted approval to enroll for the Post Graduate Diploma in Diplomacy and International Relations free of charge. However, approval of the Board of Directors, and Ministry had not been obtained in that connection.
- (iii) The Institute had not conducted the certificate course in Diplomacy, and International Relations after the year 2013.

## **5. Accountability and Good Governance**

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### **5.1 Presentation of Financial Statements**

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In accordance with Section 6.5.1 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003, financial statements should be presented to the Auditor General within 60 days after the closure of the year of accounts. However, financial statements for the year under review had been presented to the Auditor General on 01 August 2016 after a delay of 05 months.

### **5.2 Action Plan**

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As an Action Plan had not been prepared in accordance with Section 5.1.2 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003, there was no possibility for the comparison of performance with the achievement of objectives of the Act.

### **5.3 Procurement Plan**

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The following observations are made.

- (a.) A Procurement Plan had not been prepared by the Institute for the year under review in terms of Paragraph 04 (d) of the Public Finance Circular, No. 1/2014, dated 17 February 2014.
- (b.) A sum of Rs. 1,260,000 had been paid without entering into agreements for the sanitary services, and maintenance of the garden with respect to the first half of the year under review.

#### 5.4 Internal Audit

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An Internal Audit Unit had not been established in terms of Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka, and an audit had not been conducted even by the Internal Audit Unit of the Ministry.

#### 5.5 Budgetary Control

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In terms of Section 5.2 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003, a budget had not been prepared for achieving the targets of the Institutes, and to be used as an instrument of management control.

#### 5.6 Tabling of Annual Reports

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In terms of Section 6.5.3 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, action had not been taken to table the Annual Reports in Parliament from the year 2007 onwards.

### 6. Systems and Controls

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Deficiencies in systems and controls observed during the course of audit were brought to the attention of the Executive Director of the Institute from time to time. Special attention is needed in respect of the following areas of control.

#### Area of Systems and Controls

#### Observations

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| (a.) Administration of Libraries.            | (i) The number of the Register of Acquisition of the Bandaranaike International Diplomatic Training Institute had not been recorded in the books.<br><br>(ii) Non maintenance of a Register of Acquisition at the Lakshman Kadirgamar Institute. |
| (b.) Enrollment of Students for the Courses. | Enrollment of students for the Diploma in Diplomacy and International Relations without rejecting the applications received without being duly completed, or by rectifying the errors.   |
| (c.) Control of Fixed Assets.                | Non- maintenance of Registers of Fixed Assets.   |
| (d.) Control of Expenses.                    | Overtime payments had been made by the Bandaranaike International Diplomatic Training Institute without indicating the activities completed, and non-maintenance of a Register of Advances in paying advances.                                   |