

Institute of Policy Studies Sri Lanka.

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Institute of Policy Studies Sri Lanka had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles give a true and fair view of the state of affairs of the Institute of Policy Studies Sri Lanka as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

- (a) According to the Best Accounting Practices , work in progress relevant to the buildings valued Rs.9,314,164 had not been shown as a separate item below the fixed assets. However, it was added to the value of fixed assets.
- (b) Advance payments amounted to Rs.861, 821 paid for chairs need for the auditorium had been accounted under the work –in-progress of buildings.

1.2.2 Accounts Receivable

The balances amounted to Rs.316,434 had to be recoverable from more than two years and Rs.1,494,326 more than one year period within the debit balance amounted to Rs.1,810,760 .

1.2.3 Non-reconciled Accounts

Even though there was a difference of Rs.28,793 in the confirmation of balances of 05 investment accounts amounting to Rs.169,729,449 shown in the financial statements in the year under review ,action had not been taken to identify the difference there of .

1.2.4 Non-compliance with Laws, Rules Regulations and Management Decisions.

The following non-compliances with laws, rules regulations etc. were observed in audit.

Reference to the Laws, Rules, Regulations and Management Decisions	Non compliance
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(a) Act No.53 of 1988 and the Revised Amendment of the Institute of Policy Studies No.9 of 1999 – Section 03	Even though the Authority had empowered Auditor General for appointing a qualified auditor for assistance and manipulating him when doing audit, in 3 instances auditing of relevant 3 projects it had been handed over to a private audit firm without being getting permission of the Auditor General.

- (b) Public Enterprises Circular No.PED/12
dated 02 June 2003
- i Section 9.2 (B) Cadre had not been approved.
- ii Section 9.3 (i) The approval of the Ministry and the agreement of the Department of Public Enterprises there on had not been obtained for the procedures of recruitments and promotions of the Institute.
- iii. Section 9:14:2 An Establishment Procedure had been prepared and implemented for human resource management,nevertheless the agreement of the Secretary to the Treasury and the Department of Public Enterprises had not been taken there on.
- (c) Management Services Circular No.39 of 26 May 2009. Recruitment procedure had not been approved by the Department of Management Services and Rs.2,248,069 had been paid for the employees as honorarium.
- (d) Circular No.PF/PE 95 of the Department of Public Enterprises dated 14 June 1994. An amount of Rs.268,621 had been paid as bonuses for officers in April 2010 ,without taking prior approval.
- (e) Public Accounting Circular No.30/94 dated 20 April 1998 Even though all transactions relevant to the foreign grants for the building fund should be done through the Department of External Resources of the General Treasury, grants

amounting to Rs.13,214,520 had been received directly to the Institute.

- (f) Section 5.4.4 of the Procurement Guidelines of 2006 Advances had been paid exceeding 20 per cent of the value of a contract amounting to Rs.66, 358,610. A surety had not been obtained for it.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

According to the financial Statements presented, the operation of the Institute for the year under review had resulted in a deficit of Rs.26,294,271 as against the corresponding surplus of Rs. 25,643,254 for the preceding year, thus indicating a deterioration in the financial result by Rs.51,937,525. Decreases in receiving Government Grant, interest income and liquidated damages on contracts by a sum aggregating Rs.40,509,897 and increase in staff expenses, depreciations, seminar and workshop expenses, utility expenses and operating expenses by a sum aggregating Rs.13,781,174 had caused for the deterioration in the financial results.

2.2 Operating Review

2.2.1 Performance

As the targets that should be achieved during the year under review had not been included in the Action Plan, the actual performance could not be compared.

2.2.2 Identified Losses

(a) An exchange loss of Rs. 2,864,421 had been incurred after adjusting the differences of Rupee value proportionate to the foreign currency by the time of receiving those money that was invoiced for obtaining money for projects.

(b) Due to non-receipt of Rs. 520,000 that was receivable from a project on utilization of liquor in 2008, the amount had been written off of the revenue as bad debts.

2.2.3 Internal Audit

An internal audit relating to the year under review had not been carried out.

2:2:4 Audit and Management Committees

In terms of the Public Enterprises Circular No. PED/12 of 02 June 2003, an Audit and Management Committee relating to the year under review had not been established.

3. **Systems and Controls**

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

- (a) Accounting
- (b) Loan Files