

## **Lakshman Kadirgamar Institute of International Relations and Strategic Studies - 2014**

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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 2014 comprising the statement of financial position as at 31 December 2014 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 Auditing 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 judgement, 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**

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

### **2. Financial Statements**

#### **2.1 Qualified Opinion**

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 Kadiragamar Institute of International Relations and Strategic Studies as at 31 December 2014 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**

##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

Although a name board valued at Rs. 356,546 had been purchased in the year under review for the Bandaranaike International Diplomatic Training Institute, and accounted under Property, Plant, and Equipment, provisions for depreciation had not been made for the year under review in terms of Sri Lanka Public Sector Accounting Standard No. 07.

##### **2.2.2 Unexplained Differences**

The following observations are made.

- (a) The depreciation of the year under review had been shown as Rs. 716,986 in the trial balance with respect to Property, Plant, and Equipment, whereas it was shown as Rs. 841,793 in the statement of financial performance.
- (b) A difference of Rs. 269,136 was observed between the balances of the ledger and the statement of financial performance in respect of 02 items of expenditure.

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

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

<u>Reference to Laws, Rules, Regulations and Management Decisions</u>	<u>Non-compliance</u>
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| (a) Section 10(e) (I) of Sri Lanka Institute of Strategic Studies Act No. 45 of 2000 as amended by Sri Lanka Institute of Strategic Studies | The Bandaranaike International Diplomatic Training Institute should have been vested in the Lakshman Kadiragamar Institute of International Relations and Strategic Studies with effect from the date of enforcement of the Act. However, action |
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| Act No. 32 of 2006  | had not been taken accordingly even up to the end of the year under review.   |
| (b) Employees Provident Fund Act, No. 15 of 1958                                      | Contributions to the EPF in respect of 2 officers totalling Rs. 43,368 had not been deducted and remitted as specified during the period, from June-December of the year under review.  |
| (c) Employee Trust Fund Act, No. 46 of 1980   | As contributions had not been remitted on due date, surcharges totalling Rs. 9,796 had been paid.   |
| (d) Payment of Gratuity Act, No. 12 of 1983.  | Provision for gratuity had not been made for 18 officers of the Institute.  |
| (e) Financial Regulations of the Democratic Socialist Republic of Sri Lanka           |   |
| Financial Regulation 212 (2)  | Despite being stated that salary advances should be paid subject to a maximum of 40 per cent, salary advances of 80 per cent and 67 per cent of the basic salary had been paid to an officer of the Institute in the months of February and July of the year under review respectively. |
| (f) Treasury Circular, No. 842 of 19 December 1978                                    | Although, the fixed assets purchased, should be entered in a Register of Fixed Assets in the Form General 287, a Registry of Fixed Assets had not been maintained in respect of the assets purchased in the year under review at a total value of Rs. 3,559,193.                        |
| (g) Paragraph 9.3.1 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003 | Action had not been taken to obtain the approval of the Ministry and the Treasury by preparing a scheme of recruitment and promotions.  |

### **3. Financial and Operating Review**

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#### **3.1 Financial Review**

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##### **3.1.1 Financial Results**

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The financial result of the Institute for the year under review had been a surplus of Rs. 4,339,517 as compared with the corresponding surplus of Rs. 1,691,957 for the preceding year, thus indicating an improvement of Rs. 2,647,560 in the financial result for the year under review. Although the expenditure of the year under review had been increased by Rs 7,649,553 as compared with the preceding year, the increase in the course fees and other

income by sums of Rs. 7,766,397 and Rs. 3,501,700 respectively had mainly contributed to the improvement of the Financial Result.

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

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##### **4.1 Management Inefficiencies**

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The following observations are made.

- (a) Without ensuring the services rendered to the Institute, and based on the attendance, a sum of Rs. 5,783,399 had been paid during the year under review to 19 officers who had been recruited temporarily to the Human Rights Division of the Ministry of Foreign Affairs on the basis of paying allowances monthly.
- (b) Although, an advance of Rs. 10,000 had been paid to an external person in the year under review for preparing a scheme of recruitment, promotion, and the number of cadre of the Institute, the scheme had been prepared only for the posts which had not been approved.

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

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##### **5.1 Presentation of Accounts**

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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 lapse of the year of accounts. However, financial statements for the year under review had been presented to the Auditor General on 08 January 2016 after a delay of 10 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 Institute had not prepared a Procurement Plan for the year under review.

##### **5.4 Internal Audit**

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An Internal Audit Unit had not been established, and the Ministry had not conducted an internal audit as well.

##### **5.5 Budgetary Control**

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As stated in the 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 institute, and to be used as an instrument of management control

## **5.6 Publication of Annual Reports**

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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.

- (a.) Maintenance of Salaries Control Accounts
- (b.) Maintenance of Inventories
- (c.) Human Resource Management