

## **Institute of Policy Studies of Sri Lanka - 2014**

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The audit of financial statements of the Institute of Policy Studies of Sri Lanka 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 net assets 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 18 of the Institute of Policy Studies of Sri Lanka Act, No.53 of 1988 as amended by Act, No.09 of 1999.

### **1.2 Management's Responsibility for 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 risks 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 powers to the Auditor General to determine the scope and 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 Audit 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 for the effects 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 Institute of Policy Studies of Sri Lanka 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**

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) Four motor vehicles costing Rs.10,325,000 shown as a zero value in the accounts as at 31 December of the year under review but still in use, had not been revalued and the fair value had not been brought to account.
- (b) A sum of Rs.2,541,915 paid as incentives for the year under review had been shown as research expenditure instead of being shown as staff cost.
- (c) In terms of Section 16 of the Institute of Policy Studies of Sri Lanka Act, No.53 of 1988, all the money required to meet the expenditure incurred by the Institute in executing and performing its powers, functions and duties, should be paid by the Fund. Contrary to the above provisions, a separate fund named as "Endowment Fund" had been established by the Institute. Even though the Committee on Public Enterprises held on 26 July 2012 had directed to prepare and present the accounts of this Fund for audit, it had not been complied with. Nevertheless, transactions of this Fund had been disclosed as related party transaction in the Notes to accounts instead of being included in the financial statements.

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

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A sum of Rs.7,039,648 should have been receivable from various institutions relating to the projects completed by the end of the year under review, and out of that a balance of Rs.1,260,448 had not been recovered over a period of one year as at 31 December of the year under review.

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

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The non-compliances with laws, rules, regulations etc. observed in audit are given below.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 751 (2)	Even though an Inventory of Electrical Fittings including the details of all electrical fittings, apparatus, etc. in all Government buildings should be maintained, it had not been so done.
(ii) Financial Regulation 757 (2)	(i) Action in terms of financial regulations had not been taken with regard to 143 units of excesses pertaining to 12 categories of goods and 37 units of shortages pertaining to 10 categories of goods according to the Board of Survey Report.  (ii) The diesel tank with a capacity of 4,000 liters stored at the premises of the Institute and 10 categories of assets costing Rs.1,539,595 in the Register of Fixed Assets had not been included in the Board of Survey Report.
(iii) Financial Regulation 1645(a)(b)	Monthly Running Charts had not been prepared and presented to audit in terms of the provisions of financial regulations.
(b) Public Enterprises Circular No. PED/12 of 02 June 2003	
(i) Paragraph 4.2.6	Even though the Quarterly Progress Reports should be presented to the line Ministry and to the Department of Public Enterprises before an elapse of 30 days from the end of the quarter, it had not been so done.
(ii) Paragraph 7.4.3	The books of the library had not been subjected to an Annual Board of Survey.

## **2.5 Transactions not supported by Adequate Authority**

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A sum of Rs.57,636,660 had been invested in Treasury Bills as at 31 December of the year under review contrary to Section 11 of the Finance Act, No.38 of 1971.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Institute for the year under review had resulted in a surplus of Rs.744,965 as compared with the corresponding surplus of Rs.1,648,908 in the preceding year, thus indicating an deterioration of Rs.903,943 in the financial results.

## **4. Operating Review**

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### **4.1 Performance**

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The following observations are made.

- (a) Even though four projects had been implemented with the financial contribution of the United Nations Children's Fund (UNICEF) during the year under review, project activities had not been completed within the due period. Thus, a sum of Rs.3,741,509 had been refunded to the Treasury.
- (b) The following functions to be discharged in accordance with the Institute of Policy Studies of Sri Lanka Act had not been discharged.
  - (i) Establishment of a repository for economic and social research information and other related materials in terms of Section 5(g) of the Act.
  - (ii) Establish and maintain relations with research institutions in Sri Lanka or abroad with objects similar to the objects of the Institute and to facilitate co-operation and collaboration with such institutions in terms of Section 5(h) of the Act.
  - (iii) The Board may appoint a Research Advisory Committee to advise the Board, on the programme of policy studies, to be undertaken with the support and assistance of the Institute in terms of Section 12(1) of the Act.
- (c) According to the Progress Reports presented to audit at the end of the year under review, the financial and physical progress of academic projects had not been specifically indicated.

### **4.2 Delayed Projects**

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According to the audit test check, 10 projects had not been completed within the due period whereas the performance level of those projects had also not been revealed by the reports by the end of the year under review.

### **4.3 Deficiencies in the Contract Administration**

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The following observations are made with regard to the contract for the construction of the new building of the Institute of Policy Studies.

- (a) A sum totalling Rs. 7,198,631 had been overpaid to the contractor due to the failure to take correct measurements, payments made for change in prices and construction of ponds costing Rs.178,897 , Rs.6,588,859 and Rs.430,875 respectively.
- (b) In making the adjustments for additional work, computation relating to same items had been done at different rates.
- (c) The work abandoned by the contractor had been completed in 33 sub contracts, thus an additional sum of Rs.126,242,254 had been spent.
- (d) The contract had not been completed within the due period, thus a foreign exchange loss of Rs. 5,885,281 had occurred.
- (e) Interest on the advance of Rs.5,669,449 overpaid due to the abandonment of work costing Rs. 45 million by the contractor, had not been recovered.
- (f) Advances of Rs.76,622,178 representing 43 per cent of the contract value had been granted, contrary to 5.4.4 of the Government Procurement Guidelines.
- (g) An audit carried out on the value of work completely abandoned had revealed that , the management had furnished contradictory replies in 03 instances as Rs.45,047,245, Rs.44,629,245 and Rs.33,383,695 respectively. As such, the accurate value could not be established in audit.

#### **(h) Award of Sub Contracts**

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Failure to submit a Performance Bond in respect of two contracts of which the total cost was Rs.10,535,743 in terms of 5.4.8 of the Government Procurement Guidelines, grant of advances amounting to Rs. 5,427,402 exceeding the limit of 20 per cent relating to three sub contracts contrary to 5.4.4 of the Government Procurement Guidelines, and failure to enter into agreements in respect of three sub contracts valued at Rs.12,615,403 in terms of 8.9.1 of the Government Procurement Guidelines were observed.

### **4.4 Management Inefficiencies**

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Even though the land where the new building of the Institute of Policy Studies was constructed had been a property granted by the Government on a long term lease agreement,

action had not been taken even by the date of audit to vest this property in the name of the Institute by a Deed of Lease.

#### **4.5 Personnel Administration**

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The following observations are made.

- (a) In terms of Section 9.2 (b) of the Public Enterprises Circular No. PED/12 of 02 June 2003 every institution should maintain an approved cadre. Nevertheless, the approval of the Department of Management Services had not been obtained for the cadre of the Institute.
- (b) Action had not been taken to get the recommendation of the Salaries and Cadre Commission for the salaries and allowances in terms of Paragraph 1 of the Management Services Circular No.39 of 26 May 2009.
- (c) Even though all the employees of the Institute had been recruited on contract basis, except a few posts specified for low salary, the officers who hold other posts had served for over five years by extending the contract period. According to the instructions of the Public Enterprises Circular No.01/2013 dated 15 January 2013, the age limit of the employees of the public Corporations could not be extended beyond 60 years. However, officers over that age limit had been continuously employed and salaries and allowances totaling Rs.3,866,584 had been paid during the year under review. It had been brought to account as Honorarium.

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

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#### **5.1 Internal Audit**

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An Internal Audit Unit had not been established in terms of Management Audit Circular No.DMA 2009/01 of 09 June 2009 while the internal audit had been carried out by a private audit firm.

#### **5.2 Unresolved Audit Paragraphs**

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Approval of the Treasury and the Department of Management Services had not been obtained for the Human Resources Management Code in accordance with the Directive No.10 of the meeting of the Committee on Public Enterprises held on 26 July 2012.

#### **5.3 Procurement Plan**

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A procurement plan had not been prepared for the year under review in terms of the Public Enterprises Circular No. PED/12 of 02 June 2003.

**6. Systems and Controls**  
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Weaknesses 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) Foreign Aid
- (b) Maintenance of Registers
- (c) Accounting
- (d) Submission of Information
- (e) Control over Contracts
- (f) Assets Management