

## **Institute of Policy Studies of Sri Lanka – 2015**

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

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, 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 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 Sri Lanka Public Sector Accounting Standard - 07**

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As useful life time had not been reviewed annually in respect of non- current assets, the fixed assets costing Rs.58,232,898 had been fully depreciated but are being further used. Accordingly, the estimated error arised had not been rectified as per Sri Lanka Public Sector Accounting Standard 03.

#### **2.2.2 Accounting Deficiencies**

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In terms of Section 16 of the Sri Lanka Policy Studies Institution Act No.53 of 1988, all the money required for the settlement of expenditure incurred by the Institute in fulfilling its functions and activities and implementation of duties should be borne by the Fund. Contrary to that, the Institute had established a separate fund named as “Endowment Fund”. Even though the Committee on Public Enterprises had directed on 26 July 2012 in its meeting that the accounts of this Fund should be prepared and submitted for audit. Action had not been taken to comply with that directive. However, instead of inclusion of the activities of this Fund in the financial statements, it had been disclosed as a note to the accounts as a related party transaction.

### **2.3 Accounts Receivable**

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Sums of Rs.1,873,227 and Rs.1,147,747 receivable from debtors in respect of 2 projects remained for more than 01 year and receivable from the Ministry of Youth Affairs respectively had not been recovered even by 31 December of the year under review.

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

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The following observations are made.

## Reference to Laws, Rules, and Regulations etc

## Non-compliance

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| (a.) | Section 8 of the Finance Act No.38 of 1971.                               | The budget for the year 2015 had not been approved by the Board of Control.  |
| (b.) | Treasury Circular No.842 of 19 December 1978.                             | A Register of Fixed Assets had not been maintained correctly and in the updated manner.  |
| (c.) | Paragraph 7.4.3 of Public Enterprises Circular No.PED/12 of 02 June 2003. | Library books costing Rs.410,630 had not been subjected to the annual Board of Survey and the reports thereon had not been furnished to the Auditor General. |

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the year under review had been a surplus of Rs.1,119,500 as compared with the surplus of Rs.744,965 in the preceding year thus indicating an improvement of Rs.374,535 in the financial results as compared with the preceding year. Decrease of non-operating expenses as compared with the preceding year had been the main reason for this improvement.

In analyzing the financial results of the year under review and the previous 4 years, the financial results had improved continuously from the year 2011 to 2013 and it had deteriorated in the year 2014 by Rs.863,938 and improved again up to Rs.119,500 in the year under review. However, in considering the employees remuneration and depreciation on non-current assets, the contribution of the institute amounting to Rs.63,237,093 in the year 2011 had continuously improved and it was Rs.88,258,767 in the year 2015.

### **4. Operating Review**

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#### **4.1 Performance**

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The following observations are made.

- (a) According to the Action Plan prepared for the year under review, it was expected to implement 24 projects and to earn an income of Rs.56,500,000. According to the performance report, 40 projects had been implemented and earned only an income of Rs.36,068,000.
- (b) A sum of Rs.2,000,203 received as advances for 3 projects during the year under review had not been utilized and the completion periods of 11 projects relating to the year under review and the preceding year had ranged from 4 months to one year.

- (c) A financial contribution of Canadian Dollars 950,000 had been given by the International Development Research Institute for the activities of the institute during the period from 01 October 2014 to 01 March 2019.

The following observations are made in this regard.

- (i) According to the agreement with the International Development Research Institute, the budget and the action plan of the Institute along with the first Technology progress report had not been prepared.
- (ii) The budgeted income for the year under review amounted to Rs.27,750,000, whereas the actual income was Rs.23,902,995. Accordingly the actual income had been less than the expected income by 14 per cent.
- (iii) Four projects, according to the financial contribution of the International Development Research Institute were not made available for audit.

#### **4.2 Idle Assets**

Books amounting to 2098 valued at Rs.1,114,813 existed in the Printing and Publication Division as at 31 December 2015 had remained idle in the stores without being used for 10 years period from the year 2005 to 2015.

#### **4.3 Management Activities**

The building in which the Institute was operated had been constructed in the year 2011 but action had not been taken to vest this land in the name of the Institution upto now.

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

#### **5.1 Corporate Plan**

In terms of Section 5 of the Public Enterprises Circular No.PED/12 of 02 June 2003, a Corporate Plan for a period not less than 3 years should be prepared and presented to fulfill the Vision and Mission of the Institute. Nevertheless, action had not been done so by the Institute.

#### **5.2 Action Plan**

An action plan had been prepared for the projects of the Institute but the performance indicators to measure the performance of those activities had not been introduced. The Action Plan had not been reviewed periodically.

#### **5.3 Procurement Plan**

A Procurement Plan had not been prepared for the year under review in terms of Guideline 4.2 of the Government Procurement Guidelines.

