

The audit of financial statements of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017, 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 judgment, including the assessment of the risks of material misstatement 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 the 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 Lakshman Kadirgamar Institute of International Relations and Strategic Studies as at 31 December 2017 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 Standards**

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##### **Sri Lanka Public Sector Accounting Standard 07**

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The following observations are made.

- (a) Depreciation method of the sundry items that included in Property, Plant and Equipment had not been disclosed from Financial Statements of the Institute.
- (b) As per the paragraph 65 of the standard, due to non-reviewed of the useful life time of the non-current assets, computer items cost Rs.905,150 had completely depreciated for the year under review. but those items have using furthermore. However, estimated errors had not been revised as per the Sri Lanka Public Sector Accounting Standard No 03.

#### **2.2.2 Accounting Policies**

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Instead of annually amortized the assets that brought by using capital grants, fully grant of Rs.4,944,768 had been included in the statement of Financial Performance. However, a sum of Rs.157,000 had been spent as Revenue Expenditure by using that grant.

#### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) According to the calculations of the Institute, Institute's contribution for Employees Provident Fund and Employees Trust Fund was Rs.1,517,117. However, it was included in the Statement of Financial Performance as Rs.1,503,927. Hence, it was understated by Rs.13,190.
- (b) Depreciation had been made for fully depreciated computer items cost of Rs.905,150 during the year under review, Computer items had been decreased by value of Rs.226,288 and the annual depreciation was increased by the same amount.

### 2.3 Accounts Receivable and Payable

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Action had not been taken even in the year under review to settle a sum of Rs.6,744,288 which is being brought forward from the year 2011 and payable to Bandaranaike Memorial International Conference Hall, entertainment expenses which is being brought forward from the year 2014 amounted to Rs.62,000 and the audit fees Rs.150,000 including in the accrued expenses balance of Rs.8,557,029 of the Financial Statements.

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

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The following non-compliances were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-Compliances</b>
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(a) Stamp Duty (Special Provisions) Act No. 12 of 2006 amended gazette extraordinary No. 1530/13 of 01 January 2008 Paragraph 10	If employees' salaries were Rs.25,000 or above, Rs.25 of stamp duty must charge by the institute and action had not been taken remitted it to the Inland Revenue Department.
(b) Treasury Circular, No. 842 dated 19 December 1978	Kadrigamar Institute had not been maintained a fixed assets Register for fixed assets cost valued at Rs.16,080,355 as at 31 December of the year under review.

## 3. Financial Review

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### 3.1 Financial Result

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According to the financial statements presented, the financial result of the Institute for the year under review had been a deterioration of Rs.8,244,158 and as compared with the corresponding surplus of Rs.7,797,868 for the preceding year, thus indicating deficiency of Rs.446,290 in the financial result of the year under review. The income had increased by a sum of Rs.7,043,746 occurred as compared with the preceding year, increase of supplies, consumption items expenditure by Rs.8,005,415, increase of expenditure on staff by Rs.5,202,199 and increase of other expenditure by Rs.1,837,473 had mainly attributed to the deterioration.

In analyzing financial result of four preceding years and the year under review, even though the surplus amounting to Rs.1,691,957 in the year 2013 had continuously improved from the year 2014 to 2016, had become a deficiency of Rs.3,311,380 in the year 2017. However, when taking in to consideration of the employee's remuneration and the depreciation for non-current assets, the contribution amounted Rs.12,436,454 in the year 2013 had increased continuously by Rs.23,903,845 till the year 2016 and it had been deteriorated by Rs.11,733,482 in the year 2017.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Planning**

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Annual performance indices had identified to achieve the related tasks of the act in strategic plan of the institute. However, the physical targets that must achieve had not been clearly showed under each indices.

#### **4.1.2 Operation and review**

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The following observations are made.

- (a) Due to non-existence of the physical performance targets, 15 discussions and lectures, 06 seminars and 37 periodical journals and articles published in relation to the matters fully within the purview on strategic studies and international relations could not be satisfied in audit.
- (b) Bandaranaike diplomatic training institute had been conducted only efficiency bar examination for the legal officers of the ministry, 03 training programs for officers of the public service including the diplomatic invitees from other countries and officers of the foreign service, diploma in diplomatic and world affairs and post diploma courses for the year under review.

## **4.2 Management activity**

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The following observations are made.

- (a) As per the stock verification done by the Lakshman kadirgamar institute for the year 2017, necessary action had not been taken for deficiency of 15 items of goods and surplus of 24 items.
- (b) The procedure of the Institute is hiring sound system for the programs conducted by the Institute, totaling Rs.834,500 had been spent on hiring such equipment on behalf of 14 programs for the year under review. Due to not purchasing the relevant equipment set for the institute, management had not been taken action to avoid bearing of such expenses continually.

### **4.3 staff administration**

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The following observations are made.

- (a) Institute had recruited 17 officers without obtaining approval by the Department of Management Services circular No. 39, dated 26 May 2009, and paid Rs.10,211,509 as allowances during the year under review.
- (b) Accordance to the (I) paragraph of the management services circular No. 03/2018, dated 18 July 2018, the details of the number of employees that recruited exceeding the approved cadre and the recommendations of the National Salaries and Cadre Commission and the details of the increasing of salary and allowances paid to the employees without any prior approval of the General Treasury had not been reported to the Department of Management Services.

## **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 02 October 2018 after a delay of 07 months.

### **5.2 Audit Committees**

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The ministry of foreign affairs had conducted 03 Audit and management committee meetings for the year under review, the institute and the Bandaranaike international diplomatic training institute had not been taking part for that meetings.

### **5.3 Procurement and contract process**

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#### **5.3.1 Procurement**

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- (a) A procurement plan had not been prepared by the institute and the Bandaranaike international diplomatic training 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) As per the sections 2.11.3, 6.2.2, and 8.12.3 of the procurement guidelines of 2006, Exclusion were observed that, It had not been given sufficient time for bidders to respond for bid invitations, not received recommendations of technical evaluation committees, a technical officer not certified the goods supplied in accordance with the specifications, with regard to Rs.1,790,551 of procurement done during the year under review.

#### **5.4 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.

#### **5.5 Unsolved Audit Paragraphs**

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In terms of the Section (a) of the Cabinet Decision No.අමප/06/0202/214/003, dated 23 February 2006 in relation to the establishment of Lakshman Kadirgamar Institution of International relations and strategic studies, the approval had been granted for the vesting of the title of the property located at No 24, Horton Place, Colombo 07 to the Institute by virtue of the exercise of power vested in H E the President under the State Land Ordinance. Nevertheless, action had not been taken to acquire the Property even up to the audited date.

#### **5.6 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. Due to lack of procedures for reservation and the cancellation of the hall and the garden, Special attention should be paid to renting the hall and the garden.