

1.1 Opinion

The audit of the financial statements of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Auditor's Responsibility in Auditing Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.6 Non- compliance with Laws, Rules , Regulations and Management Decisions

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non- compliance	Comments of the Management	Recommendation
-----	-----	-----	-----
a)Financial Regulation of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 257	The payments had been made for the uncertified vouchers worth of Rs 2,627,566 .	The payments will be made without such shortcomings in future.	Actions should be taken in accordance with the Financial Regulations.

- (b) Employees Provident Fund Act No. 15 of 1958 and Employees Trust Fund Act No. 46 of 1980 . Despite the actions were not taken to grant membership of Employees Provident Fund and Employees Trust Fund to an officer a sum of Rs.48,000 had been collected as contributions. Actions will be taken to prepare applications and obtain the membership of these Funds and to remit his contributions to respective institutions without delay. Measures to be taken with the provisions of the Acts.
- (c) Stamp Duty (Special Provisions) Act No 12 of 2006 as amended by the Gazette Extraordinary No. 1530/13 of 01 January 2008 . Although a fee of Rs. 25 should be remitted to the Inland Revenue Department when the salary of officers is Rs. 25,000 or more, the Stamp Duty on Payroll from January to September 2018 totalled to Rs. 8,356,000 of 13 officers a sum of had not been charged and remitted. Actions has been taken to deduct the stamp duty Since the month of October 2018 . Measures to be taken with the provisions of the Act.
- (d) Treasury Circular No. 842 of 19 December 1978 A Register of Fixed Assets had not been maintained in respect of the fixed assets valued at Rs..16,201,432 . Actions will be taken to prepare a Register of Fixed Assets immediately. Actions should be taken as per the Circular.
- (e) Section 6.5.3 of Public Enterprises Circular No. PED/12 of 02 June 2003 . Arrangements had not been made to table the Annual Reports in Parliament Since 2007 . Arrangements will be made to table the Annual Reports in Parliament. Actions should be taken as per the Circular..

- | | | | |
|---|--|---|---|
| <p>(f) Management Services Department Circular No. 39 of 26 May 2009</p> | <p>Necessary relevant approvals in respect of the payment of monthly allowances for the Executive Director of the Institute and 11 other staff members as per the requirements of the circular had not been obtained. Further, the posts of other staff officers had not been approved by the Department of Management Services and actions had not been taken to prepare the Scheme of Recruitment and get the approval for that.</p> | <p>The answers were not received.</p> | <p>The requirements of the Circular should be fulfilled.</p> |
| <p>(g) Section (a) of the Decision of Cabinet of Ministers No. අමුණ/06/0202/214/003 of 23 February 2006</p> | <p>Although approval for the transfer of the ownership of the properties located at 24, Horton Place, Colombo 07 to the institution has been granted By exercising the powers vested upon His Excellency the President under the State Land Ordinance, actions had not been taken to take over the property as at the date of the audit.</p> | <p>The Ministry of External Affairs is currently in the process of making necessary arrangements With regard to the transfer of ownership of property to the institution.</p> | <p>Actions should be taken to take over the ownership of the property to the institution.</p> |

2. Financial Review

2.1 Financial Result

The operating result for the year under review was an surplus of Rs.8,558,241 and the deficit as against the preceding year was a sum of Rs. 446,290. Accordingly, a growth of Rs. 9,004,531 was observed in financial result. The increase of interest income, rental income, course revenues and other incomes from 9 per cent to 83 per cent had been the reasons for this growth.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Payments had been made for photocopies of the payment receipt when refunding the deposit charged amounted to Rs. 60,000 for providing of the lecture hall on rent basis by the Institute.	Since it has been informed that the receipt originals of those clients were missing , the Institute has taken actions to looked into the matter and confirmed the request and paid the amount.	Payments should not be made on photocopies.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comments of the Management	Recommendation
Although the Financial Statements should be furnished within 60 days when the accounting year is over as per the Paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 , the financial statement of the year 2018 was furnished on 27 June 2019 .	The Board of Directors of the Institute met on 10 June 2019 and submitted the financial statements and obtained the approval and furnished on 27 June 2019 .	Financial statements should be submitted as per the Circular.