

1.1 Opinion

The audit of the financial statements of the Institute of Policy Studies Sri Lanka for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity 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 Finance 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 Institution as at 31 December 2019, 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 Institution’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 Institution or to cease operations, or has no realistic alternative to do so.

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

As per Section 16(1) of the National Audit Act No.19 of 2018, the Institution 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 by the Institution.

1.4 Auditor's Responsibility for the Audit of the 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 judgement 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 Institution'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 Institution'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 the Institution to cease to continue as a going concern.
- Evaluate the overall presentation, 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 Institution, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institution has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Institution has performed according to its powers, functions and duties; and
- Whether the resources of the Institution 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.

1.5.2 Non- compliance with Sri Lanka Public Sector Accounting Standards

Non- compliance with the reference to particular Standard	Management Comment	Recommendation
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Even though Fixed Assets amounting to Rs.115,931,941 had been fully depreciated due to not annually reviewing the useful lifetime for Non- current Assets, they remained further being used. As such, action had not been taken to revise the estimated error occurred in terms of the Sri Lanka Public Sector Accounting Standard 03 and it had not been disclosed in the financial statements, in this connection.	The revaluation of the fully depreciated assets and recording in Books could not be carried out in the prevailing system.	Action should be taken relating to the assets in terms of the Sri Lanka Public Sector Accounting Standard 03.

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

Reference to Laws, Rules, Regulations etc.	Management Comment	Recommendation
Even though a Corporate Plan should be formulated including the proposed targets for a period of at least three years to manage the activities of the Institution with a long – term and a short-term vision as per Section 5.1.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, a Corporate Plan had not been formulated by the Institution.	A Strategic Plan has been formulated for the years 2018-2021.	Details on the researches that are currently had only been included in the Plan presented and, a Corporate Plan should be prepared as per the Circular for the future vision of the Institution.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.30,007,646 and the corresponding surplus in the preceding year amounted to Rs.64,374,638. Therefore a deterioration amounting to Rs.34,366,992 of the financial result was observed. The decrease of the income of the year had been the main reason for this deterioration.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) It had not been able to complete 07 Research Projects that were scheduled to be initiated in the year under review and to complete within the year and the earning of income of the Institution by Research Projects had been decreased by 29 per cent than the preceding year.	It had been stated that the Projects had been delayed in the year 2019 due to unavoidable reasons.	Greater attention should be paid towards the implementation of the Research Projects, the main operational activity of the Institution.

(b) A sum of Rs.11,441,384 had been provisioned for the completion of 07 Research Projects that had been scheduled to be completed in the preceding year but not completed, in the Action Plan prepared by the Institution relating to the year under review. However, the progress of the Action Plan could not be evaluated on not including the details on the periods intended for the completion of the above Research Projects into the Action Plan.

It had been intended to earn income by these projects, by the Institution.

It should be concerned towards the execution of the functions included in the Action Plan.