

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 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, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2020 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 Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, 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 qualified 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 on the Audit of 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 skepticism 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.
- Obtained 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 internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded on the appropriateness of the Management's use of the going concern basis of the Institute on 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. However, future events or conditions may cause to cease to continue as a going concern.

- Evaluated 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 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 Audit Observations on Preparation of Financial Statement

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Audit Observations	Comments of the Management	Recommendation
<p>(a) Even though the provisions had been made in proceeding years and also accrued expenses amounting to Rs. 7,214,057 and salaries payable amounting to Rs. 480,000 had been added again to the cumulative profit without being appeared in liabilities furthermore, necessary disclosures regarding that had not been made in the financial statements in accordance with Paragraph 54 of Standard No. 03.</p>	<p>This Rs. 7,214,057.00 is an accrued expense which had elapsed for about 10 years. It is also difficult to recognise and ascertain the exact party that should pay for this. Similarly, the relevant officer could not be contacted in respect of the amount of Rs. 480,000 as the salary of a Research Director. Therefore, this writing off was</p>	<p>Disclosures should be made in accordance with the Accounting Standards.</p>

done by making aware of the Board of Management.

(b) Although the most number of assets amounting to Rs.14.2 Million had been completely depreciated except for the buildings of the Institute, details of those assets were not submitted to the audit. Similarly, details of assets that are fully depreciated but currently in use had not been disclosed in the financial statements in terms of the Paragraph 92 (b) of the Standard 07 .

It is informed that the actions would be taken in accordance with Paragraph 92 (b) of the Standard in future.

Disclosures should be made in accordance with the Accounting Standard

1.5.2 Lack of Evidence for Audit

Item	Amount Rs. (Million)	Unavailable Audit Evidence	Comments of the Management	Recommendation
Interest Income of the Training Division	2.1	Fixed Deposits Renewal Notices	Fixed Deposits Renewal Notices were submitted to audit.	Relevant Renewal Notices should be submitted for the calculation of interest of the year under review.

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

The following observations are made.

Reference to Laws, Rules, Regulations	Non-compliance	Comments of the Management	Recommendation
<p>(a) Sri Lanka Institute of Strategic Studies (Amendment) Act No. 32 of 2006</p>	<p>i. Section 10 (a) Although the Board of Management of the Institute should appoint an International Advisory Council consisted of five persons, no such Advisory Council had been appointed.</p>	<p>It will act upon as required by re-submitting to the Board of Management in this regard.</p>	<p>An International Advisory Council should be appointed in accordance with the provisions of the Act.</p>
<p>ii. Section 10 e (1) and Section 10 e (2)</p>	<p>Assigning the Bandaranaike International Diplomatic Training Institute to the Lakshman Kadirgamar Institute of International Relations and Strategic Studies with effect from the date on which the Act comes to be enacted, the training programmes and other academic courses should be conducted as a unit of the Institute and although the officers and the employees who have been deployed in the</p>	<p>It will act upon as required by re-submitting to the Board of Management in this regard.</p>	<p>Actions should be taken in accordance with the provisions of the Act.</p>

service of the Institute should be considered as the officers and the employees of the Institute, arrangements had not been made accordingly.

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| <p>iii. Section 10 e (2) (i) and Section</p> | <p>Although all the money which had credited in a certain account maintain by the Bandaranaike International Diplomatic Training Institute should be transferred to the Fund of the Institute, actions had not been taken accordingly.</p> | <p>It will act upon as required by re-submitting to the Board of Management in this regard.</p> | <p>Actions should be taken in accordance with the provisions of the Act.</p> |
| <p>(b) Treasury Circular No. 842 dated 19 December 1978</p> | <p>A Register of Fixed Assets had not been maintained in respect of the Fixed Assets valued at Rs.6,362,668 .</p> | <p>Actions are being taken to maintain a Register of Fixed Assets.</p> | <p>Actions should be taken in accordance with the provisions of the Circular.</p> |
| <p>(c) Public Administration Circular No. 09/2009 dated 16 April 2009</p> | <p>The Institute had not taken actions to install a finger scanner and the overtime expenses had been made based on the period which was not ascertained by a finger scanner in terms of the Circular.</p> | <p>It was discussed on the installation of a finger scanner machine at the Board of Management and because it had ended without a consent, it was difficult to take further actions. It is kindly informed that the necessary actions would be taken by submitting this again to the Board of Management .</p> | <p>Arrangements should be made to obtain confirmations from the finger scanner machine when paying overtime allowances.</p> |

(d) Public Enterprises
Circular No. PED/12 of 02
June 2003

(i) Section 1.6.5.3	Although the Annual Reports for a particular year should be tabled in Parliament before 31 May of the following year, the Institute had not tabled its' Annual Reports in Parliament from 2007 to 30 June 2021 .	Necessary arrangements will be made to table the Annual Reports in Parliament.	Actions should be taken in accordance with the provisions of the Circular.
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(ii) Section 11.9.3.1	Although schemes for recruitment and promotion should be prepared for each post, a Scheme of Recruitment and Promotion for the Institute had not been prepared and approved.	Actions are being taken with the Ministry of Foreign Affairs for the preparation of a Scheme of Recruitment regarding the posts of this Institute.	Actions should be taken in accordance with the provisions of the Circular.
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(e) Paragraph 02 (v) of Management Circular No. 02/2020 dated 26 October 2020	All the recruitments / vacancies should be filled only under the salary/ salary code given to the relevant post by the Department of Management Services and even though it has been stated that the determination of staff salaries and allowances should not be done by each institution, such requirements had not been fulfilled.	After completing the (d) above, actions will be taken to obtain the necessary approval from the Department of Management Services in respect of salaries and allowances after that.	Actions should be taken in accordance with the provisions of the Circular.
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(f)	Government Procurement Guideline 2006	A Master Procurement Plan and a Procurement Timetable had not been prepared.	It is informed as it is intended to take actions to make a Procurement Plan and its' ancillary activities.	Actions should be taken in accordance with the Guideline.
	i. Guidelines 4.2.1 and 4.2.2			
	ii. Guideline 5.4.8	Performance Securities had not been obtained in respect of three contract works valued at Rs. 2,836,417 .	It is informed that the steps will be taken to obtain a Performance Security in future.	Actions should be taken in accordance with the Guideline.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs. 7,397,748 and the corresponding surplus for the preceding year was Rs. 30,183,190. Accordingly, a deterioration of Rs. 22,785,442 in the financial result was observed . The decrease in course fee income and project income by Rs. 22,783,538 had mainly attributed to this deterioration.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observations	Comments of the Management	Recommendation
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(a) Even though, as a result of the Training Division which should be affiliated to the Institute was established at the Bandaranaike Memorial International Conference Hall despite there is space within the institution, a sum of Rs. 23,565,632 had been paid	It is informed that the Bandaranaike International Embassy Training Institute has been established on the premises of the Lakshman Kadirgamar Institute for International Relations and Strategic Studies as per the decisions of the Ministry of	It should act economically and effectively when incurring expenses.

as rent from the year 2016 to 2020 without taking actions to maintain on the premises itself.

External Affairs and the Board of Management.

- (b) Even though the approval with regard to the establishment of the Institute has been granted to transfer the ownership of the property at No. 24, Horton Place, Colombo 07 to the Institute by exercising the powers vested in His Excellency the President under the State Land Ordinance in terms of Section (a) of the Cabinet Decision No. අමප 003/214/0202/06 dated 23 February 2006, actions had not been taken to take over the property.

Activities are being done to acquire the property at 24 Horton Place, Colombo 07 .

Actions should be taken to take over the ownership of the property to the Institute.

3.2 Operating Inefficiencies

----- Audit Observations -----	Comments of the Management -----	Recommendation -----
<p>The Training Division of the Institute had commenced three courses for the 2019/2020 academic year and those had been completed in the year 2020 . There was a less percentage such as 44 per cent, 53 per cent and 49 per cent respectively out of the students who had registered for those courses and completed the courses.</p>	<p>The personal reasons of the students for stopping of the course had affected.</p>	<p>Arrangements should be made to direct students to the end of the course.</p>