

1. Financial Statements

1.1 Opinion

The audit of financial statements of the Institute of Policy Studies of Sri Lanka for the year ended 31 December 2022 comprising the Statement of Financial Position as at 31 December 2022 and the Statement of Financial Performance, Statement of Changes in Net Assets and Cash Flow Statement for the year 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 reported 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 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for the 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 of the Institute.

1.4 Audit Scope (Responsibility of Auditor regarding 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 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 the Institute 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 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 Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

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

Reference to the Laws, Rules, Regulations etc.	Non- compliance	Management Comments	Recommendation
Paragraph 3.1 in Operational Manual in Public Enterprises Circular No. 2021/1 dated 16 November 2021	A cadre had not been approved for the Institute and the cadre was employed on the one year or below period contract basis in accordance with the Operational Manual of the Institute	A registered cadre has not been maintained by the Institute as the factors of the instability in the project revenue due to several numbers of reasons such as policies, environment and interest of donors and changing project fields with the changes in priorities of government policies.	It should be done in accordance with the circulars.
Paragraph 3.2	Although a Scheme of Recruitment and Promotion for the institute should be prepared and obtained approval for that as a public enterprise, the Institute has not acted as per circulars.	The Operational Manual has been prepared to direct the operational activities including number of cadre, recruitment procedure, promotions and salaries.	It should be prepared a Scheme of Recruitment and Promotion for the institute as per circular and obtain approval of the Treasury.

2. Financial Review

2.1 Financial Results

The operating results of the year under review amounted a surplus of Rs.50,453,780 and, corresponding surplus in the preceding year amounted to Rs.9,225,871. Accordingly, a growth amounting to Rs.41,227,909 in the financial result was observed. The increase in project revenue by Rs.35,789,302 had been mainly reasoned for this growth.

3. Operating Review
3.1 Procurement Management

Audit Observation	Comments of the Management	Recommendation
Although it was not planned to purchase computer accessories as per the procurement plan of the year 2022, computer accessories valued at Rs.2.141.260 had been purchased time to time under market pricing method in the year under review.	The Action Plan 2022 had been revised time to time for entering the expected changes and new requirements. Accordingly, it was tabled for the approval of the Board for the additional asset requirements.	The Procurement Plan should be prepared and updated as per Annual Budget.