

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies (“Institute”) 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 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 2022 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 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 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.
- 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 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 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.
- 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 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 Accounting Deficiencies

The following observations are made.

Audit Observations	Comments of the Management	Recommendation
Although the net value of the office equipment purchased by the Training Division for Rs.169,500 during the year under review should be Rs.152,550 at the end of the year, that value was not shown in the financial statements.	It has been noted to correct.	Accurate calculations should be shown in the financial statements.

1.5.2 Lack of Evidence for Audit

Item	Amount Rs. (Million)	Audit Evidences Unavailable	Comments of the Management	Recommendation
Value of Depreciation	1.7	Dates of purchase of assets and the schedules with cost of them and the Register of Fixed Assets.	Updating of Registers of Fixed Assets has been commenced by now.	Relevant documents to the confirmation of accuracy of the depreciation value should be presented to audit.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Sri Lanka Institute of Strategic Studies (Amendment) Act No. 32 of 2006	(i) Section 10 (a) Although the Board of Management of the Institute should appoint an International Advisory Council consisted of five persons, such an Advisory Council had not been appointed.	Instead of appointing an International Advisory Council, a Review Board has been appointed. The Board of Management has given approval for these nominated local members and in addition, it has been decided that foreign members should also be included in this Review Board and arrangements are being made with regard to that.	An International Advisory Council should be appointed in accordance with the provisions of the Act.
(ii) Section 10 e (1) and Section 10 e (2)	The Bandaranaike International Diplomatic Training Institute should be taken over to this Institute with effect from the date on which the Act comes to be enacted, that is from 29 September 2006 and the training programmes and other academic courses should be conducted as a unit of the Institute. Further the officers and	All the expenditures therein have been made by the money earned by conducting courses by the Institute up to 2020. The Ministry of Foreign Affairs has taken a policy decision to allocate funds to pay the rental of the Institute from the year 2020 .	Actions should be taken in accordance with the provisions of the Act.

the employees who have been deployed in the service of the Institute should be considered as the officers and the employees of the Institute. Nevertheless, those requirements had not been met accordingly.

(iii) Section 10 e (2) (i)	Although all the money that was in credit in any account maintained by the Bandaranaike International Diplomatic Training Institute before the effective date of the Act should be transferred to the Fund of the Institute, it had not been so done.	As the money in the accounts maintained by the Training Institute is self-earned by the institute and also the provision from the government for its expenses is not received, actions have not been taken to transfer the money to another account.	Arrangements should be made in accordance with the provisions of the Act.
(b) Financial Regulations of Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 395 (h)	Although the Bank reconciliation statements should be prepared by an officer or officers who have not engaged with depositing the collected money in the bank, writing cheques, or maintaining the cash book, all these functions of the institution had been done by a single officer.	Actions will be taken to recruit and assign duties after receiving the approval of the Department of Management Services for staff positions.	Actions should be taken in terms of Financial Regulations.
(ii) Financial Regulation	A number of 149 items which were not	To include these items that can be further used	Board of Survey should

756	inventoried and the books in the library had not been surveyed during the year under review.	in the Inventory Register and the books of the library will be surveyed this year and reported.	be carried out in respect of all the goods in terms of Financial Regulations.
(c) Paragraph (01) of Management Services Circular No. 39 dated 26 May 2009	Although the provisions have been made by Acts relating to Corporations and Statutory Boards for the determination of wages and allowances to the employees of the Institute, the Minister-in-charge or the Board of Directors should refrain from approving such provisions without obtaining the recommendation of the Salaries and Cadre Commission and the approval of the Department of Management Services. Nevertheless, a total of Rs.857,903 had been paid as allowances during the year under review for 04 officers assigned to the Institute from the Ministry of Foreign Affairs on the approval of the Board of Directors.	The details required for obtaining approval from the Department of Management Services will be presented within the next week.	Actions should be taken in accordance with the provisions of the Circular.
(d) Management Services Circular No. 02/2016 dated 25 April 2016 and No. 02/2016 (i) dated 21 October 2016	Although 04 minimum and maximum salary scales had been mentioned under 04 service categories for the senior management level and 03 service categories for the middle management level of the	-do-	Actions should be taken in accordance with the provisions of the Circular.

Institute, a sum of Rs.2,160,000 and Rs.1,800,000 had been paid to the Director General (Training) and Director (Administration and Finance) of the Institute respectively as salaries during the year under review with the approval of the Board of Directors without being recognized identified under that.

- (d) Public Enterprises
Circular No. 01/2021 dated 16 November 2021

(i) Operational manual

- Section 3.2.1 Although the approval of the Department of Management Services for the number of posts to be existed, recruitment procedures, salary structure and allowances should be obtained, actions had not been taken accordingly. -do- -do-
- Section 6.6 (i) Although the certified financial statements should be submitted to the Auditor General within 02 months after the end of the accounting year, the financial statements of the year under review had been submitted on Actions will be taken to hold meetings at stipulated times to obtain the approval of the Board of Management for the financial statements in the future. Financial statements should be presented as per the provisions of the circular.

14 June 2023, after a delay of three months 14 days.

	(ii) Although the Annual Reports related to a particular year should be tabled in Parliament five months before the end of the financial year, the Institute had not tabled Annual Reports since 2007 .	A Memorandum of Cabinet of Ministers has been prepared to submit a report containing financial statements from 2007 to 2015 and annual reports from 2016 to 2021.	-do-
(ii) Guidelines on Good Governance Section 2.3	Although the strategic plan prepared in relation to the achievement of the objectives of the Institute along with the Annual Budget and Action Plan should be submitted by the Secretary of the Line Ministry to the Department of Public Enterprises and the Department of National Budget, it had not been so done.	Action plan is attached herewith.	An Action Plan should be prepared and submitted to the relevant institutions in terms of circular provisions.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 2,900,074 and, the corresponding deficit in the preceding year amounted to Rs. 1,075,825. Therefore an improvement amounting to Rs. 3,975,899 of the financial result was observed. Although the staff expenses and consumables supply expenses had increased by Rs. 11,585,055, increase of the income of the year under review by Rs. 15,236,301 had mainly attributed for this improvement.

3. Operating Review
3.1 Management Inefficiencies

Audit Observations	Comments of the Management	Recommendation
The ownership of the properties at No: 24, Horton Place, Colombo 7 had not been taken over by the Institute as per the Section (a) of the Decision of Cabinet of Ministers No. අමෙ 003/214/0202/06 dated 23 February 2006.	Information has been submitted to the Divisional Secretary with the approval of the Board of Management in respect of acquisition of the property.	Arrangements should be made to take over the ownership of the properties to the Institute.

3.2 Human Resources Management

Audit Observations	Comments of the Management	Recommendation
Even though the officers who had retired from public service have been re-instated for the posts of Director General, Librarian and Communication Manager of the Institute, the approval of the Cabinet of Ministers had not been obtained for that.	It has been noted to make arrangements according to the relevant provisions in future.	Recruitment should be made with the formal approval.