

Sri Lanka Institute of Policy Studies

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Institute of Policy Studies as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1:2 Comments on Financial Statements

1:2:1 Accounting Deficiencies

The following observations are made.

- (a) Even though a sum of Rs.82,900,000 had been invested as at 31 December 2012 in the name of the Institute in a private Bank, that amount had not been disclosed in the financial statements for the year 2012. Even though the audit was informed that the said money belonged to the Endowment Fund, no information whatsoever relating to that Fund had been included in the Statement of Financial Position for the year under review.
- (b) A sum of Rs.793,845 brought to account in the year 2010 as receivable from the Treasury, though not receivable from the Treasury after the elapse of the relevant year, had been written off as an expenditure for the year.

1:2:2 Sri Lanka Public Sector Accounting Standards

Sri Lanka Public Sector Accounting Standard No. 1.

The Treasury Bills and Fixed Deposits had not been properly classified and shown in accordance with paragraphs 77,78 and 79 and the Format appearing in the Statement of Financial Position.

1:2:3 Accounts Receivable

(a) Debtors

The accounts receivable totaled Rs.7,402,111 and action had not been taken for the recovery of debtors balances amounting to Rs.1,311,005 existing over a long period.

(b) Staff Loans

Even though all the staff of the Institute of Policy Studies are recruited on contract basis for one year, loans exceeding a period of one year had been granted to those officers.

1:2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The yearly, half yearly and quarterly progress reports had not been prepared in terms of Section 4.2.6 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operating result for the year amounted to a surplus of Rs.916,970 as compared with the corresponding surplus of Rs.343,442 for the preceding year, thus indicating an improvement of Rs.573,528 in the financial result.

2:2 Analytical Financial Review

(a) Total Income

The total income of the Institute of Policy Studies amounting to Rs.101,197,612 for the year 2011 had increased by a sum of Rs.20,244,366 to Rs.121,441,978 or 20 per cent in the year 2012. The items that affected such increase are given below.

Item	Income		Increase
	2012	2011	
	Rs.	Rs.	Rs.
Treasury Contribution	13,666,000	12,701,000	965,000
Contribution of the Endowment Fund	22,000,000	7,500,000	14,500,000
Income from Workshops and Seminars	7,651,720	3,996,181	3,655,539
Interest Income	20,386,916	14,569,419	5,817,497
Hire of Auditorium	1,172,320	222,140	950.180

(b) Project Income

The income from the Study Projects, which is the main business activity of the Institute, received in the year under review amounted to Rs.49,355,732 and that as compared with the income of Rs.54,160,812 for the preceding year, indicated a decrease of Rs.4,805,080 or 9.8 per cent.

3. Operating Review

3:1 Performance

Out of the objectives and purposes appearing in Section 6 of the Sri Lanka Institute of Policy Studies Act, No. 53 of 1988 the commencement, promotion and maintenance of studies relating to the national development plans and policies should be done in accordance with Sub-section (a) thereof. But such information of the year under review had not been furnished to audit.

3:2 Operating Inefficiencies

(a) Research Expenditure

The research expenditure amounting to Rs.13,289,655 in the year 2011 had increased by Rs.7,334,166 or 60 per cent to Rs.20,623,821 in the year 2012. It was observed that the projects received by the Institute done through external companies or individuals had been the reason for the decrease of project income by 10 per cent and the increase of project expenditure by 60 per cent.

(b) Study Projects

The following observations are made.

- (i) Signed agreements were not available for Study Projects.
- (ii) Memorandums of Understandings had not been signed between the Institute of Policy Studies and the local or foreign employer institutions before the commencement of the projects.
- (iii) There were delays in the issue of the final reports on Study Projects.

- (iv) Invoices had not been issued on the due dates according to the progress the studies done by the Research Division and there was no proper co-ordination in that connection between the Research Division and the Accounts Division.
 - (v) Invoices had not been issued for completed projects.
- (c) Study Projects executed through Private Companies
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- (i) A sum of Rs.6,036,820 had been received from the Ministry of Power and Energy for the Feasibility Study on the Interconnection between India and Sri Lanka Power Transmission Grids Complementary Studies to be conducted for the Government of Sri Lanka. The following observations are made in connection with the contract.
 - * Payments had been completed without the recommendation of a responsible officer or a committee of the Institute of Policy Studies, and the study had been conducted with the concurrence with the Ministry of Power and Energy and in a manner suitable to that Ministry.
 - * It was established in audit, that in the assignment of the various studies received by the Institute to external institutions, cost estimates had been prepared without paying attention to financial contribution charges.
 - * The contract had been awarded without following the procurement procedure.
- (ii) Two projects, namely, the Handbook on the India Sri Lanka Free Trade Agreement and the Trade Opportunities in Sri Lanka for the Indian Business Community had been commenced after entering into an agreement with the High Commissioner for India. According to the agreement, a sum of Rs.1,405,000 comprising Rs.700,000 and Rs.705,000 should be paid at the completion of the contract. The High Commissioner for India had paid a sum of Rs.700,000 on 21 March 2011, that is, 14 days after the signing of the agreement by the Executive Director of the Sri Lanka Institute of Policy Studies on 07 March 2011. The following observations are made in this connection.

- * According to the agreement, the final draft and 1,000 copies of the printed Handbook should have been handed over by 31 May 2011. Evidence that the work was done on the specified date had not been furnished.
- * Adequate attention had not been paid for the recovery of the balance sum of Rs.705,000 receivable from the High Commissioner for India.

(iii) The Procurement Procedure had not been followed in connection with the contract valued at Rs.1,382,500 for the field work on the Consultancy Service for Local Authority Survey for Northern and Eastern Province, North East Local Service Improvement Project.

(d) Projects carried out without Written Requests

According to the file maintained for the Survey of Informal Sector Enterprises and Survey of Employable Disabled was conducted at the request of the Department of Labour and the draft report had been furnished. The estimated income of the project amounted to Rs.564,163. Nevertheless, a written request made by the Department of Labour had not been furnished to audit.

- (e) The information on the registration of the individuals and companies that can execute research projects had not been recorded.
- (f) The Value Added Tax amounting to Rs.184,900 on transactions with invoice value of Rs.1,725,733 had not been recovered from the clients.
- (g) A Fund on employee welfare work had been established over 9 years ago and a sum of Rs.1,300,225 of that Fund had been invested in Treasury Bills by the end of the year under review. The Fund had not incurred any expenditure whatsoever for the welfare activities of the officers even by 31 May 2012.
- (h) The expenditure on lectures and workshops amounting to Rs.1,425,719 in the year 2011 had increased by Rs.4,149,211 or 291 per cent to Rs.5,574,930 in the year under review. Even though the expenditure on workshops had increased, the workshop income for the year under review, as compared with Rs.3,996,181 for the year 2011, amounted only to Rs.7,651,720 and as such the increase represented 91 per cent.

3:3 Apparent Irregularities

The Project PJ 65F Consultancy for a Study on Private Sector Disaster Risk Reduction had been a Study Project of UNISDR and that had been assigned to three officers of the Institute. The sum of US\$ 10,000 received into a private Bank Account of the Officer incharge of the Project had been credited later to the Bank Account of the Institute of Policy Studies. The need for the research staff to supply of information of private Bank Accounts to the client institutions was not explained to audit.

3:4 Staff Administration

The expenditure on the staff of the Institute for the year under review amounted to Rs.49,860,529 and as compared with expenditure on staff for the preceding year amounting to Rs.46,371,858 indicated an increase of Rs.3,488,671.

- (a) Even though every institution should maintain an approved cadre in terms of Section 9.2(b) of the Public Enterprises Circular No. PED/12 of 02 June 2003, the approval of the Department of Management Services had not been obtained for the cadre of the Institute.
- (b) Action in terms of paragraph 1 of the Management Services Circular No. 39 of 26 May 2009 had not been taken to obtain the recommendation of the Salaries and Cadre Commission for the salaries and allowances.
- (c) Even though a request was made to furnish to audit the particulars relating to the projects assigned in the year 2012 to 20 members of the Research Staff, the progress of those projects and the other duties performed by that staff, incomplete particulars only had been furnished to audit. The Chairman informed that a Handbook of Operations will be prepared by the Institute in terms of Section 6(a) of the Sri Lanka Institute of Policy Studies Act, No. 53 of 1988 and that action will be taken in accordance with the provisions therein.

4. Accountability and Good Governance

4:1 Corporate Plan

Even though a Corporate Plan for the period ending in the year 2013 had been prepared, information on the periodical review and updating of the plan had not been furnished to audit.

4:2 Action Plan

The Action Plan for the year 2012 had not been furnished.

4:3 Audit Committee

Even though the Audit Committee had held one meeting in the year 2012 a representative of the Auditor General had not been invited to participate as an observer.

4:4 Procurement Plan

A Procurement Plan for the year under review had not been prepared.

4:5 Budgetary Control

A budget prepared by the Sri Lanka Institute of Policy Studies for the year 2012 had not been furnished to audit while the expenditure only on the contractual service had been prepared for furnishing to the Department of National Budget.

4:6 Observations on the Unsettled Audit Paragraphs

(a) Directives of the Committee on Public Enterprises made at the meeting held on 26 July 2012.

(i) The written approval of the Treasury in accordance with Directive No. 10 had not been obtained for the Human Resources Management Procedure.

(ii) The approval of the Treasury in accordance with Directive No. 12 had not been obtained for the Operations Manual.

(iii) The preparation of accounts and presentation for audit by the Board of Management of the Endowment Fund had not been supervised in accordance with Directive No. 20.

(b) Report of the Auditor General on the Financial Statements for the year ended 31 December 2011.

A block of land, half acre in extent out of the Samurdhi Nursery at the Torrington Square in the Division of the Divisional Secretary, Thimbirigasyaya had been handed over to the Institute of Policy Studies and a sum of Rs.5,460,000 had been paid as the lease rent thereon. Nevertheless, the long term lease deed on the land had not been received up to date.

5. Systems and Controls

Special attention is drawn to the following areas of systems and controls.

- (a) Study Projects
- (b) Debtor Control
- (c) Staff Loans
- (d) Use of Library Books