

Institute of Policy Studies of Sri Lanka – 2013

The audit of financial statements of the Institute of Policy Studies of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13 (1) of the Finance Act No.38 of 1971 and Section 18 of the Institute of Policy studies of Sri Lanka Act No.53 of 1988 as amended by Act No.09 of 1999. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14 (2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Institute of Policy Studies of Sri Lanka as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

According to the Section 16 of the Institute of Policy Studies of Sri Lanka Act, No. 53 of 1988, in executing and performing its powers, functions and activities, all money received locally or from foreign Countries and on concessionary loan basis should be credited to the Institute's Fund, and charged the expenditure incurred therein to that Fund. Contrary to that, the Institute had established a separate fund named as "Endowment fund". The transactions of this fund had not been included in the financial statements of the Institute. According to the information made available for audit, the balance of this Endowment Fund as at 31 December of the year under review amounted to Rs.469.98 million. Even though the Committee on Public Enterprises held on 26 July 2012 had directed to prepare the accounts of this fund and to submit for audit, the Institute had not complied with that directive. Although the Chairman had informed that this Fund had been audited by a private audit firm, information about that auditor or the reports issued were not made available for audit.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Paragraphs 5.1.3 and 5.2.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003.	Copies of the updated Corporate Plan approved by the Board of Control along with the copies of the Annual Budget should be presented to the Line Ministry, Department of Public Enterprises and the Auditor General before 15 th day of the commencement of the financial year, it had not been done accordingly.

- (b) Section 12 of Institute of Policy Studies Act No.53 of 1988 Action had not been taken to appoint the Research Advisory Committee to advise the Board of Control of the Institute and as such the intended objectives on studies projects from the advisory committee could not be achieved.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Institute for the year under review had resulted in a surplus of Rs.1,648,908 as compared with the surplus of Rs.916,970 in the preceding year thus indicating an improvement of Rs.731,938 in the financial results. The increase of Treasury grants and grants from the International Development Research Institute amounting to Rs.7,910,537 and Rs.1,334,000 respectively and the decrease of academic project expenditure by Rs.8,466,350 had been the main reasons for this improvement.

3.2 Analytical Financial Review

The short term investments of Rs.209,142,541 represented 86 per cent of the overall current assets and as a result, the current ratio had been as high as 5.1. It was observed that current assets management was not at an optimum level.

4. Operating Review

4.1 Performance

Twenty five projects to generate cash had been implemented during the year under review and a sum of Rs.5,303,473 had been received only from 6 projects.

4.2 Operating Inefficiencies

The following observations are made.

- (a) Action had not been taken to get an assistance of a computer software package in order to facilitate studies project management which is the main function of the Institute according to the Institute of Policy studies of Sri Lanka, Act. The follow up action on studies projects commenced had not been at a satisfactory level.
- (b) The progress of the study projects had not been specifically stated in the progress reports presented to audit.

4.3 Delayed Projects

Thirteen projects commenced prior to the year 2013, which should have been completed within the limited time period had been continuously maintained as "ongoing projects". No any action whatsoever had been taken against the research staff who were responsible for non-completion of these projects within the specific periods.

4.4 Personnel Administration

The personnel cost of the Institute for the year under review amounted to Rs.55,199,026 as compared with the personnel cost for the preceding year amounted to Rs.49,860,529. It had increased by Rs.5,338,497 as compared with the previous year.

- (a) In terms of Section 9.2 (b) of the Public Enterprises Circular No. PFD/12 of 02 June 2003 every institution should maintain an approved cadre. Nevertheless, the approval of the Department of Management Services had not been obtained for the staff of the Institute.
- (b) Action had not been taken to get the recommendation of the Salaries and Cadre Commission for the salaries and allowances in terms of Management Services Circular No.39 of 26 May 2009.
- (c) Even though it was stated that all the employees of the Institute had been recruited on contract basis, it was observed in audit that except a few posts specified for low salary, all other employees who hold other posts had not been recruited on contract basis. According to the Public Enterprises Circular No.01/2013 dated 15 January 2013, employees of the Corporations are limited to 60 years of age. However, employees had been recruited in excess of that age limit and salaries and allowances totaling Rs.3,219,984 had been paid to them during the year under review. It, had been brought to accounts as Honorarium.
- (d) Even though all the staff of the Institute of Policy Studies had been recruited on contract basis for only one year period, they had been granted loans for more than one year. The loans so granted during the year under review amounted to Rs.1,484,000 and the total outstanding loan balances as at 31 December 2013 amounted to Rs.1,972,868.

5. Accountability and Good Governance

5.1 Corporate Plan

Even though a Corporate Plan had been prepared for the period ended 2013, the information that it had been periodically reviewed and updated had not been furnished to audit in terms of paragraph 5.1.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

5.2 Action plan

An action plan for the year 2013 had not been presented in terms of paragraph 5.1.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003

5.3 Internal Audit

A private audit firm had been appointed for the internal audit and the expenditure incurred thereon in the year under review amounted to Rs.478,128 and four internal audit reports including detailed information had been issued to the Institute for 4 quarters of the year by the audit firm.

5.4 Audit and Management Committee

According to the paragraph (15) of the Public Enterprises Circular No PED/55 of 14 December 2010, audit and management meeting should be held at least once per quarter. However only 3 meetings were held for the year 2013.

5.5 Tabling of Annual Reports in parliament

The approval had been granted to table the Annual report for 2012 in Parliament at the meeting of the Cabinet of Ministers met on 30 January 2014, and the required copies had been sent to the Ministry of Finance and Planning on 02 April 2012 for tabling in Parliament.

5.6 Unresolved Audit Paragraphs

The following observations are made.

(a) Directives of the Committee on Public Enterprises

According to the directive No.01 of the meeting of the Committee On Public Enterprises held on 26 July 2012 action had not been taken to get the approval of the Treasury and the Department of Management Services for the Human resources Management Code.

(b) Matters revealed in the Auditor General's reports for the years 2011 and 2012

A land 1/2 acres in extent, from the Samurdhi plant nursery in the Thimbirigasyaya Divisional Secretarial area at Torrington had been given to the Institute of Policy Studies and a sum of Rs.5,460,000 had been paid as rent for the land. However the long-term lease hold deed had not been obtained up to date.

5.7 Strategic Plan

Despite Phd graduates had been deployed as academic staff and Librarians and are being paid high salaries, a private company had been selected to prepare the strategic plan, contrary to the provisions in National Procurement Circular No.08. of. NPA/C60/18 dated 25 January 2006 by paying a sum of Rs.1,125,264.

5.8 Procurement Plan

A procurement plan had not been prepared for the year under review.

6. Systems and controls

Weaknesses in systems and controls observed during course of audit were brought to the notice of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Computer Program for Accounting
- (b) Foreign Aids
- (c) Research Expenditure