

Institute of Policy Studies of Sri Lanka – 2016

The audit of financial statements of the Institute of Policy Studies of Sri Lanka for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 the 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 the Financial Statements

The 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 Auditing 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk 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 the 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 2016 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 Sri Lanka Public Sector Accounting Standards

As the useful life of the non-current assets had not been reviewed annually in terms of Sri Lanka Public Sector Accounting Standard 07, assets costing Rs.144,214,218 were further in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in the estimation in accordance with the Sri Lanka Accounting Standard 03.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) For a land obtained by the Institute on lease before 10 years, a Grant had been awarded by the Commissioner General of Land on 28 April 2016 and out of the a value of that land amounting to Rs.156,000,000, only 10 per cent had been paid in cash. The balance of Rs.140,400,000 had not been brought to account as the Capital Grants and a sum of Rs.15,600,000 only had been brought to account as the value of the land.

(b) Further, having deducted the total lease of Rs.10,920,000 paid during 10 years for the land indicated in paragraph (a) above, only the balance had been paid in cash. Therefore, instead of crediting a sum of Rs.10,920,000 deducted during the preceding 10 years to the retained profit again, it had been adjusted to the profit of the year under review.

2.3 Accounts Receivable

The following observations are made.

(a) Action had not been taken to recover a sum of Rs.1,903,969 remained receivable to the Institute from 3 research projects of which a period of 04 years had elapsed from the expiry of the project agreements. Further, that balance had not been established by the confirmation of balances.

- (b) Without taking action to recover a sum of Rs.1,147,747 due from a Government Ministry since year 2014, it had been stated as the provision for bad debts during the year under review.

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

An Advisory Committee had not been appointed in terms of Section 12(1) of the Institute of Policy Studies of Sri Lanka Act, No.53 of 1988 for giving instructions on the policy studies required to be undertaken with the support and assistance of the Institute.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year under review had resulted in a surplus of Rs.13,802,781 as compared with the corresponding surplus of Rs. 1,119,500 for the preceding year thus indicating an improvement of Rs.12,683,281 in the financial result of the year under review as compared with the preceding year. The above improvement was mainly attributed to the increase in the interest income by Rs.12,246,692.

Analysis of the financial results of the year under review and four preceding years revealed that, there had been a surplus from the year 2012 up to the year 2016 and it had subjected to annual fluctuation. However, when readjusting the employees remuneration and the depreciation for the non-current assets to the financial results, the contribution of the Institute amounting to Rs.70,650,200 in the year 2012 had continuously increased up to Rs.91,151,651 by the end of the year under review.

4. Operating Review

4.1 Performance

The functions of the Institute in accordance with Section 05 of the Institute of Policy Studies of Sri Lanka Act, No.53 of 1988 are summarized below.

- To initiate, promote and conduct studies in relation to national development plans and policies.
- To establish and maintain liaison with Government institutions, universities and research institutions concerned with development studies.
- To undertake and conduct socio-economic research.
- To conduct joint studies, seminars or symposia with foreign research institutions and research institutions in Sri Lanka.
- To establish a repository for economic and social research information and other related materials.

The following observations are made on the achievement of the above functions.

- (a) Up on the requests made by the local and foreign institutions, the Institute had commenced 41 research projects under the Macro Economic Policy in a manner include 06 fields as Agriculture Development, Labour, Poverty, International Services, Environmental Economic Policy and Health and Economic Policy. This 41 research projects had included 09 projects which could not be completed in the preceding year. The following observations are made in this connection.
- (i) Nine research projects included in the Action Plan of the year under review which had been implemented relating to the year 2015 and could not be completed within that year had been completed during the year under review. Although the expected income therefrom was Rs.10,222,109 only an income of Rs.7,726,358 had been earned. Further, 03 research projects which had been implemented in the preceding and scheduled to be completed during the year under review had not been completed during the year under review. The expected income therefrom amounted to Rs.2,296,571.
- (ii) Although the project income in the year 2014 had increased by 51 per cent as compared with the year 2013, it had decreased by 59 per cent in the year 2016 as compared with the year 2014. The estimated project income of the year under review was Rs.40,000,000. Nevertheless, according to the Performance Report, only an income of Rs.25,027,771 or 62.5 per cent had been earned. However, the failure of the institution in conducting researches as expected had resulted in this situation and it was not observed as to whether the steps had been taken to minimize this situation.
- (b) As the physical and financial position had not been indicated in the Performance Report presented for the year under review, the progress of the performance of the Institute could not be evaluated.

4.2 Management Activities

For the purpose of printing 3350 books of 11 category of books published during the year under review, a sum of Rs.1,220,326 had been spent. An income of Rs.728,525 had been earned from the sale of 853 books out of the above books and 1387 books had been awarded to the dignitaries. However, as books had been printed without properly identifying the requirement, 1110 books or 33 per cent of the printed books had remained either unsold or undistributed.

4.3 Transactions of Contentious Nature

Non-physical fixed assets valued at Rs.8,200,412 had been written off from the books without obtaining proper approval from the Board of Directors and the Treasury.

5. Accountability and Good Governance

5.1 Corporate Plan

Although a Corporate Plan should be prepared for a period of not less than 03 years for the achievement of vision and mission and presented in terms of Section 5 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the Institute had not taken action accordingly.

5.2 Action Plan

The Action Plan had not been prepared as required by the Public Finance Circular No. 01/2014 dated 17 February 2014.

5.3 Procurement Plan

The Procurement Plan prepared for the year under review did not include the office equipment valued at Rs.1,493,963 purchased during the year under review and the building constructed in the year under review.

6. Systems and Controls

Deficiencies in systems and controls observed during the 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.

Area of Systems and Control	Observations
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(a) Fixed Assets	Failure to revalue the fixed assets after reviewing their useful life annually.
(b) Action Plan	Not timely evaluating the Action Plan
(c) Loan Receivable	Not taking action to recover the long term debts