

Lakshman Kadirgamar Institute of International Relations and Strategic Studies – 2016

The audit of financial statements of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016, 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 10 (3) of Sri Lanka Institute of Strategic Studies Act, No.45 of 2000 as amended by Sri Lanka Institute of Strategic Studies (Amendment) Act No.32 of 2006. 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

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 judgment, 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 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 Lakshman Kadirgamar Institute of International Relations and Strategic Studies 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 Accounting Policies

Even though the Institute had not identified an accounting policy while the Government grants taking in to accounts, a sum of Rs. 5,500,000 received as government capital grants in the year under review had been brought to accounts as income in the statement of financial performance.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) In terms of the Section (a) of the Cabinet Decision No. අම/ 06/0202/214/003 dated 24 January 2006 in relation to the establishment of Lakshman Kadirgamar Institute of International Relations and Strategic Studies, the approval had been granted for the vesting of the title of the property located at No. 24, Horton Place, Colombo 07 to the Institute by virtue of the exercise of powers vested in H E the President under the State Lands Ordinance. Nevertheless actions had not been taken to acquire the property and assessed and brought to the accounts even up to end of the year under review and only a sum of Rs.3,189,193 incurred up to the end of the year under review for the improvements of that property had been capitalized.
- (b) Seventy One books received in the year 2016 as donations to the library of the Bandaranaike International Training Institute had not been valued and brought to accounts.
- (c) Despite a sum of Rs. 363,440 was estimated as rates of the Institute in the year under review, only the paid amount of Rs.90, 860 had been shown in the financial statements and a sum of Rs.272, 580 payable had not been brought to accounts.

2.3. Accounts Receivable and Payable

Actions had not been taken even in the year under review to settle a sum of Rs. 6,744,288 which is being brought forward from the year 2011 and payable to Bandaranaike Memorial International Conference Hall, entertainment expenses which is being brought forward from the year 2014 amounted to Rs. 62,000 and the audit fees Rs. 150,000 including in the accrued expenses of the Institute.

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

The following instances of non-compliances with laws, rules, regulations, and management decisions were observed.

Reference to Laws, Rules, and Regulations

Non-compliances

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| (a) Treasury Circular No. IAI/2002/02 of 28 November 2002 | No. 28 | A Register of Computers had not been maintained in respect of the computer accessories of the Institute amounting Rs. 1,918,680 and in respect of the value of the computer accessories which could not be identified separately in the Bandaranaike International Training Institute. |
| (b) Public Enterprises Circular No. PED/12 of 02 June 2003
Section 9.3.1 | | Action had not been taken to obtain the approval of the Ministry and the Treasury by preparing a Scheme of Recruitment and Promotion. |
| (c) Paragraph 3.2 of Public Finance Circular No. 05/2016 of 31 March 2016 | No. | An Annual Board of Survey of the Institute and Bandaranaike International Diplomatic Training Institute had not been conducted and furnished the Reports to the Auditor General for the year under review. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the year then ended 31 December of the year under review had been a surplus of Rs. 7,797,868 and as compared with the corresponding surplus of Rs. 8,490,821 for the preceding year, thus indicating a deterioration of Rs. 692,953 in the financial result of the year under review. Even though, the interest and hire charges income had increased by a sum of Rs.3,587,768 and a decrease of supplies, consumption and other expenses by Rs. 11,735,000 occurred as compared with the preceding year, the increase in the expenditure on staff by Rs.5, 863,072 and the decrease of the income of course fees by Rs. 10,430,644 had mainly attributed to the deterioration.

In analyzing financial result of 04 preceding years and the year under review, even though the surplus amounting to Rs. 3,367,328 in the year 2012 had decreased to Rs.1, 691,956 in the year 2013, the financial result had continuously improved again up to the year 2016. However, when taking into consideration of the employee's remuneration and the depreciation for non-current assets, the contribution of the Institute amounted to Rs. 10,584,430 in the year 2012 increased continuously and it had been Rs.22, 745,608 in the year under review.

4. Operating Review

4.1 Performance

In terms of Section 5 the Sri Lanka Institute of Strategic Studies (Amendment) Act No. 32 of 2006, the activities of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies, are as follows.

- Provide information and data to the Government in relation to issues which may be required as a basis for the formulation and structuring of national policies relating to international relation and strategic studies, including information relating to state defense, national security, law, economics, cultural relations, agriculture and environment.
- Promote and assist research in strategic studies and international relations, and facilitate the training of personnel who undertake such research and studies.
- Provide a forum for discussion, analysis and evaluation of research in strategic studies and international relational in so far as the same are connected to Sri Lanka, and facilitate the carrying out of joint studies, seminars and workshops on such subjects both within the region and internationally.
- Establish a repository of information including a library dedicated to strategic studies and international relations and facilitate the availability of relevant and reliable information in relations.
- Maintain relationships and affiliations with individuals, associations, government and non-governmental institutions with similar object in Sri Lanka as well as in other countries.
- Conduct training programs on diplomacy, international relations and any other related area which the board considers appropriate.

Following observations are made in relation to achievement of the above objectives.

- (a) The physical targets with regard to the achievement of above mentioned objectives had not been shown in the Action Plan of the Institute. However, in order to accomplish the objectives of the Act, 12 lectures and 06 discussions had been conducted by the Institute in the year under review in connection with the strategic studies and international relations while only 04 journals and articles on matters falling within the purview of the Institute had been published.
- (b) In terms of the Act, the Institute should function as a multi- disciplinary research institute and only one Working Paper relating to the researches had been published in the year 2016.
- (c) In terms of the section 10(e) of the Act, Bandaranaike International Training Institute shall be as the unit of the Institute response for conducting training programs and other courses of study as its activities. Following observations are made in that connection.
 - (i) Out of the 08 Academic Programs which had been planned to be conducted in the year 2016 by the Bandaranaike International Diplomatic Training Institute, only two programs had been conducted and an unplanned training program also had been conducted.
 - (ii) The number of students who had registered in the course of Diploma in Diplomacy and International Relations during the years of 2014, 2015 and 2016 were 174, 281 and 299 respectively and the number of students who had completed the course successfully were 124, 170, and 152 in those years respectively. Accordingly, a slight decrease was shown in the number of students who had completed the course as 71 per cent, 60 per cent and 50 per cent respectively.
 - (iii) As compared with the year 2015, the course income of the Bandaranaike International Diplomatic Training Institute had been decreased by 54 per cent in the year 2016. It was observed that, Because of the decrease of the number of courses assigned by the Ministry had affected to the decrease of the course income and the attention had not been paid to improve that number.

4.2 Operational Activities

Although, 12 items of goods of the Institute had been recommended to dispose by the Board of Survey conducted for the year ended 31 December 2015, action had not been taken to dispose them and had been piled up in the Institute premises even at the date of the audit 01 August 2017.

5 Accountability and Good Governance

5.1 Action Plan

An Action Plan had not been prepared including the facts in accordance with the Paragraph 04 of the Public Finance Circular No. 01/2014 dated 17 February 2014.

5.2 Procurement Plan

A Procurement Plan had not been prepared by the Lakshman Kadirgamar Institute and Bandaranaike International Diplomatic Training Institute with regard to the year under review in terms of the Paragraph 04(d) of the Public Finance Circular No. 01/2014 dated 17 February 2014.

5.3 Tabling of Annual Reports

Action had not been taken to Table the Annual Reports in Parliament from the year 2007 to the year 2015 in terms of Paragraph 6.5.3 of the Public Enterprises Circular No. PED/12, dated 02 June 2003.

6. Systems and Controls

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

<u>Area of Systems and Controls</u>	<u>Observations</u>
(a) Enrollment of Students for the Courses.	Non-retention of Photocopies of certificates or any other documents to which prove the eligibility of the students enrolled.
(b) Maintenance of Books and Registers.	Non-maintenance of Registers of Fixed Assets in respect of fixed assets of the two Institutes amounting Rs.19,081,940.