

## **Institute of Policy Studies of Sri Lanka – 2017**

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The audit of financial statements of the Institute of Policy Studies of Sri Lanka for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 . A detail report as per the section No.13 (7)(a) of the finance act was issued to the Chairman of the institute on 21 September 2018.

### **1.2 Management’s Responsibility for the Financial Statements**

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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**

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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.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, 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 2017 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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As the useful life of the non-current assets had not been reviewed annually in terms of Section No.65 of Sri Lanka Public Sector Accounting Standard 07, assets costing Rs.115,394,076 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.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Institute for the year under review had resulted in a surplus of Rs.14,683,781 as compared with the corresponding surplus of Rs. 154,202,781 for the preceding year thus indicating an deterioration of Rs.139,519,000 in the financial result of the year under review as compared with the preceding year. A sum of Rs.151,320,000 received as capital grant from the government for lands had included to the previous year income was the main reason for the above deterioration.

Analysis of the financial results of the year under review and four preceding years revealed that, there had been a surplus from the year 2013 up to the year 2017. 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.68,837,107 in the year 2013 and had increased up to Rs.74,018,254 in the year 2014 and then had decreased upto Rs.73,390,333 in the year 2015. However, the contribution had increased up to Rs.220,274,231 in 2016 and then again had decreased to Rs.72,997,491 in 2017.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Planning**

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The following observations are made.

- (a) In terms of section 5.1.1 of the public enterprises Circular No.PED/12 of 02 June 2003, the institutions is fully responsible prepare a corporate plan at least for three years including short term and long term vision to manage institutes activities and then the institute should operate to achieve forecasted targets. The institute had not prepared a corporate plan accordingly.
- (b) The uncompleted research project in the previous year had been included in to the action plan prepared for the year under review but expected time period for completion of those projects had not been indicated in the Action Plan. Thus, progress of the action plan could not be measured.

#### **4.1.2 Performance and Review**

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The following observations are made.

- (a) The following functions had not been done in terms of the Sri Lanka Policy Studies Act No.53 of 1988.
  - (i) As per section 5(h) of the Act, the institute should establish and maintain coordination committees with Sri Lankan and foreign research institutes that having same objectives as institute and should facilitate to act with those institutes cooperatively.
  - (ii) As per section 12(1) of the Act, the Board of Directors had not appointed a Research advisory committee to give advises to the Board of Directors on the policy studies programme which should be taken over with the assistance and cooperation of the institute.
- (b) The institute had been earned a sum of Rs.53,326,088 from 37 research projects during the year under review. However, a performance report, indicating the progress of the research projects, at the end of the year under review had not been prepared by the institute.
- (c) Incompleted fourteen research projects relevant to five research field in the previous year had been included in to the action plan of this year and estimated income was Rs.32,122,534. Out of those 14 research projects 07 projects had not been completed during the year under review. Thus, a sum of Rs.13,592,237 had been received as advances for 05 other research projects from granters during the year under review and from preceeding year, but those projects had not been completed at the end of the year under review.

## **4.2 Management Activities**

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A sum of Rs.818,400 had been spent for the purpose of printing 3100 books of 11 categories of books published during the year under review. An income of Rs.505,393 had been earned from the sale of 1662 books out of the above books and 1438 books had remained at the end of the year. However, as books had been printed without properly identifying the requirement, and 46 per cent of the printed books during the year had remained either unsold or undistributed. Also, 4005 books valued for Rs.1,246,995 remained in the publishing section since 2013 to year under review.

## **5. Sustainable Development**

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### **5.1 Achievement of Objectives of Sustainable Development**

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Every government institution should act in compliance with the United Nations ‘Agenda 2030’ on Sustainable Development. The Institute of policy studies of Sri Lanka had not aware as to how to take measures relating to the activities under purview of their scope.

## **6. Accountability and Good Governance**

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### **6.1 Internal Audit**

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As per Section 09 of the Management and Audit Circulars No.DMA/2009 (i) of 09 June 2009, an internal audit report should be prepared quarter to the Management and Audit Committee for discussion. However, internal audit reports for 2017 could not be forwarded on the stipulated dates mentioned in the Circular.

### **6.2 Procurement Plan**

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The institute had prepared a Procurement Plan but had not followed the format mentioned in the guideline No.4.2.1 of the Government procurement guideline 2006. Thus, the time frame work had not been mentioned and had not been regularly supervised and updated.

### **6.3 Budgetary Control**

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As variances ranging from 6.6 per cent to 102.2 per cent between the budgeted and actual income and expenses were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

## **6. Systems and Controls**

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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 Management

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Failure to revalue the fixed assets after reviewing their useful life annually.

(b) Preparation of Plan

A corporate plan had not been prepared for the year under review and Action Plan had not been periodically evaluated.