Institute of Policy Studies of Sri Lanka - 2018

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1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Institute of Policy Studies of Sri Lanka for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 in conjunction with provisions of the National Audit Act No.19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

1.4 Scope of Audit

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute.

- Whether the Institute has performed according to its powers, functions and duties; and

- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to "devise and maintain" a system of internal accounting controls, sufficient to provide reasonable assurance that, transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standard

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
As the useful life of the non-current assets had not been reviewed annually, assets costing Rs.115,931,941 were further in the 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.	It is unable to change depreciation rate during the current system on behalf of reporting re-valuation of fully depreciation of offers.	It should be work as per the standards

1.5. 3 Non-compliance Laws, Rules, Regulations and Management Decision

The following observation is made.

Non-compliance with reference to relevant standard	Management's comment	Recommendations
In term of section5.1.1 of the public Enterprises Circular No. PED/12 of 02 June 2003, the Institutions is fully responsible preparing a Corporate Plan at least for three years including short term and long term vision to manage institute activities and then the institute should operate to achieve forecasted targets. The institute had not prepared a corporate plan accordingly.	Strategic plan is parped for 2018- 2021.	There were included only the description regarding research activities and should be prepared a corporate plan as per for the future vision of the institiute.

2. Financial Review

The operations for the year under review had resulted in a surplus of Rs.64,374,638 as compared with the corresponding surplus of Rs.80,955,742. According to the preceding year thus indicating an deterioration of Rs.16,581,104 in the financial results of the year.

3. Operating Review

3.1 Management Inefficiencies

The following observation is made.

Audit Observation	Comments of the Management	Recommendations
(a) As per the Action Plan prepared by the institution for the year under review, I was targeted completed 08 projects which had not been completed in the preceding	At future project ending period of research progress had been proposed in action plan.	These are should be included the time period which is relevant for doing necessary activities in the action plan.

	year, but 02 research projects only had been completed in the year under review. The progress of the Action Plan could not be evaluated as non- inclution of details in respect of the periods expected to be completed above 08 projects in the Action Plan.		
(b)	The agreements had been entered in to, to carry out 22 research projects during the year under review. Four projects out of that and 05 projects of which the period extended due to the ensuring year. Therefore a delay of execution of objectives intended the form the respective researchers was shown.	The situation is being controlled by the institute and then, had been obtained an advance for this project form agency which gives aids.	Those time period had been extended for next year.

4.2 Budgetary Control

The following observation is made.

Audit Observation	**Comments of the Management**	**Recommendations**
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Variances ranging from 35 per cent to 81 per cent between the budgeted revenue and actual revenue and expenses were observed. Thus, the indicating that the budget had not been made used as an effective instrument of management control.	Budgetary assessment supervised and reported quarterly and for material changes had been taken necessary action.	Annual budgetary control should be used as a control unit for sound control of actual revenue and expenditure.