

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2021 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**

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

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.

#### **1.4 Auditor's Responsibility on the Audit of Financial Statements**

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 skepticism 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 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 the Institute on 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 statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the 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 it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on Preparation of Financial Statement**

### **1.5.1 Accounting Deficiencies**

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) A sum of Rs.1,135,312 to be paid to the Department of Buildings for the renovation of buildings had not been shown in the financial statements of the year under review.	Building renovation expenses amounting to Rs.1,135,312 payable to the Department of Buildings had been disclosed under the Notes to the financial statement of the year under review.	All the expenses that can be identified as accrued expenses should be accounted for.
(b) Although a sum of Rs.212,747 should be depreciated for the year under review for computer equipment purchased from the year 2018 to 2020 valued at Rs. 830,989, it had not been so done.	Actions will be taken to correct.	Accurate calculations should be made and indicated in the financial statements.
(c) Understatement of computer depreciation in the preceding year by Rs. 290,919 had not been corrected in the financial statements.	Actions will be taken to correct.	Audit recommendations made in the preceding year should be included in the financial statements .

### 1.5.2 Lack of Evidence for Audit

Item	Amount Rs. (Million)	Audit Evidences Unavailable	Comments of the Management	Recommendation
Value of Depreciation	2.0	Dates of purchase of assets and the schedules with cost of them.	Most of the fixed assets have been purchased before a long period and it was difficult to find information of purchases. Actions will be taken to revalue in this year and to enter the value of all fixed assets purchased recently in the register .	Relevant documents pertaining to the confirmation of correctness of the depreciation value should be presented.

### 1.6 Non-compliance with Laws, Rules, Regulations, and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Sri Lanka Institute of Strategic Studies (Amendment) Act No. 32 of 2006 i. Section 10 (a)	Although the Board of Management of the Institute should appoint an International Advisory Council consisted of five persons, such an Advisory Council had not been appointed.	Since the appointment of the “International Advisory Council” is a matter of policy, it is informed that the actions will be taken to be discussed in future Meetings of Board of Management with regard to that after a proper study.	An International Advisory Council should be appointed in accordance with the provisions of the Act.

<p><b>ii.</b> Section 10 e (1) and Section 10 e (2)</p>	<p>Acquiring of the Bandaranaike International Diplomatic Training Institute to the Lakshman Kadirgamar Institute of International Relations and Strategic Studies should be made with effect from the date on which the Act comes to be enacted that is from 29 September 2006 and the training programmes and other academic courses should be conducted as a unit of the Institute. Further the officers and the employees who have been deployed in the service of the Institute should be considered as the officers and the employees of the Institute. Nevertheless, arrangements had not been made to fulfil those requirements accordingly.</p>	<p>It has been informed by the letter of Director General of Bandaranaike International Diplomatic Training Institute No: BIDTI/Admin/Aud/22 dated 24 November 2022 that it is appropriate to receive advices of the Secretary to the Foreign Ministry and take actions accordingly.</p>	<p>Actions should be taken in accordance with the provisions of the Act.</p>
<p><b>(iii)</b> Section 10 e (2) (i)</p>	<p>Although all the money that was in credit in any account maintained by the Bandaranaike International Diplomatic Training Institute before the effective date of the Act should be transferred to the Fund of the Institute, it had not been so done.</p>	<p>-do-</p>	<p>Arrangements should be made as per the provisions of the Act.</p>
<p><b>(b)</b> Section 1.6.5.3 of Public Enterprises</p>	<p>Although the respective Annual Reports for a particular year should be</p>	<p>The Annual Reports related to the years 2016, 2017 and 2018</p>	<p>Actions should be taken in accordance with</p>

Circular No. PED/12 of 02 June 2003	tabled in Parliament before 31 May of the following year, the Institute had not tabled Annual Reports in Parliament from 2007.	prepared by the Institute have been handed over to the Ministry of Foreign Affairs to be tabled in Parliament. It is informed that the actions will be taken to table the Annual Reports of the years 2019, 2020 and 2021 in Parliament through the Ministry of Foreign Affairs without delay.	the circular.
(c) Paragraph 2.1 of Public Enterprises Circular No. PED/03/2015 dated 17 June 2015	Although the monthly allowance payable to the Executive Director as per circular provisions was Rs.60,000, a sum of Rs. 11,761,000 had been paid to three Executive Directors who had served from August 2015 to April 2022 for 71 months in the range of Rs.150,000 to Rs.180,000 per month. Out of the allowance payable to them amounting to Rs.4,260,000, a sum of Rs.7,501,000 had been overpaid.	It is informed that the actions will be taken by obtaining advices from the Department of Public Enterprises to resolve issues regarding payment of allowances to Executive Directors.	Actions should be taken in accordance with the provisions of the Circular.
(d) Public Enterprises Circular No. 01/2021 dated 16 November 2021	(i) Section 3.2.1	Although the approval of the Department of Management Services for the number of posts Staff details have been provided by the letter dated 16 October 2018 to obtain the	Actions should be taken in accordance with the provisions

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|  | to be existed, recruitment procedures, salary structure and allowances should be obtained, actions had not been taken accordingly.  | approval of the Secretary to the Ministry of Finance through the Ministry of Foreign Affairs.  | of the Circular.  |
| <b>(ii)</b> Section 6.6  | Although the certified financial statements should be submitted to the Auditor General within 02 months after the end of the accounting year, the financial statements of the year under review had been submitted on 24 November 2022, after a ten months delay.   | Financial reports have been prepared for the year 2021 and the report has been approved in the Meeting of the Board of Management held on 09 November 2022 .                   | Financial statements should be presented as per the provisions of the circular. |
| <b>(e)</b> Paragraph (01) of Management Services Circular No. 39 dated 26 May 2009 | Although the provisions have been made by Acts relating to Corporations and Statutory Boards for the determination of wages to the employees of the Institute, the Minister-in-charge or the Board of Directors should refrain from approving such provisions without obtaining the recommendation of the Salaries and Cadre Commission and the approval of the Department of Management Services. Nevertheless, a sum of Rs. 836,344 for five officers appointed to the Institute from the Ministry of Foreign | Officers of the Ministry of Foreign Affairs have been attached to this Institute since its inception and allowances have been paid on the approval of the Board of Management. | Actions should be taken in accordance with the provisions of the Circular.      |

Affairs on the approval of the Board of Directors and Rs. 180,000 to an Acting Accountant of the Institute had been paid as allowances during the year under review.

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| (f) | Management Service Circular No. 02/2016 dated 25 April 2016 and No. 02/2016(i) dated 21 October 2016 | Even though 04 minimum and maximum salary codes for which those positions should be established under 04 service categories for the senior management level and 03 service categories for the middle management level of the Institute had been indicated, without being identified under that, a sum of Rs.2,160,000 and Rs. 1,717,742 had been paid during the year under review to the Director General (Training) and Director (Administration and Finance) of the Institute respectively with the approval of the Board of Directors. | Allowances have been paid on the approval of the Board of Management. | Actions should be taken in accordance with the provisions of the Circular. |
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## **2. Financial Review**

### **2.1 Financial Results**

The operating result for the year under review was a deficit of Rs. 1,075,825 and as against, the surplus for the preceding year was Rs. 7,397,748 . Accordingly, a deterioration of Rs. 8,473,573 in the financial result was observed. The decrease in other income by Rs. 18,646,788 had mainly attributed to this deterioration.



**3. Operating Review**  
**3.1 Management Inefficiencies**

**Audit Observations**

The ownership of the properties at No: 24, Horton Place, Colombo 7 had not been taken over by the Institute as per the Section (a) of the Decision of Cabinet of Ministers No. අමෙ 003/214/0202/06 dated 23 February 2006 .

**Comments of the Management**

It has been informed to the Secretary to the Foreign Affairs through a letter dated 28 April 2021 by the Divisional Secretary that further work is being done regarding the taking over of the property at No: 24, Horton Place, Colombo 7, where the Institute is located.

**Recommendation**

Arrangements should be made to take over the ownership of the properties to the Institute.

**3.2 Human Resources Management**

**Audit Observations**

Even though the officers who had retired from public service have been re-instated for the posts of Director General, Librarian and Communication Manager of the Institute, the approval of the Cabinet of Ministers had not been obtained for that.

**Comments of the Management**

Recruitment for the approved post of Librarian remained in vacant was made by publishing a newspaper advertisement in 2016 subject to the approval of the Board of Management and the allowances have been made.

**Recommendation**

Recruitment should be made with the formal approval.