

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 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in equity/ net assets and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 provisions of the National Audit Act, No. 19 of 2018 and the 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, 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 2023, 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 the Preparation of Financial Statements

1.5.1. Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non-Compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(i) According to paragraphs 19 and 20 of Sri Lanka Public Sector Accounting Standards No. 10, the revenue should be recognized by considering the stage of completion of the transaction at the reporting date. However, as revealed during the audit test check, Rs.7,920,000, the total amount received in relation to two courses conducted by the Training Division, had been recognized as income for the year, not considering the stage of completion of the transaction. As a result, by overstating the income for the year by Rs.4,221,428, the surplus had been recognized by an equal amount, and the liabilities had been understated.	Answers have not been given.	In accordance with the Accounting Standard, action should be taken to recognize the revenue correctly by considering the stage of completion of the transaction and account the same.
(ii) Even though interest income should be recognized on a time proportion basis as per paragraph 34(a) of Sri Lanka	Action has been taken to rectify the relevant accounting error through the financial statements for	As per the Accounting Standard, interest income should be

Public Sector Accounting Standard No. 10, the institution had recognized and accounted interest income on treasury bills and fixed deposits on a cash basis. the year 2024. calculated on a time proportion basis and accounted.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(i) Even though the fixed deposit value of the Training Division as at 31 December 2023 was Rs.23,156,824 as per the bank balance confirmations, due to the fact that it was stated as Rs.26,608,959 in the financial statements, assets and interest income were overstated by Rs.3,452,135.	Action has been taken to rectify the relevant accounting error through the financial statements for the year 2024.	The fixed deposit value and interest should be correctly recognized and reported in the financial statements.
(ii) The government grant of Rs.8,534,868 received from the Treasury in the year 2023 for the rental expenses of the Training Institute for the 4th quarter of 2022 was not recognized as a preceding year adjustment. However, it was recognized as income for the year 2023, resulting in an overstatement of the income for the year 2023.	The relevant recurrent expenditure is provided by the Ministry by debiting the object of the Ministry 112-2-2-4-1503/1509. It is correct that the grant amount has been accounted as a grant to the institute and not an overstatement of income.	Income should be accounted for the correct period.
(iii) The building rent of the Training Division for the months of January and February 2024 of Rs.1,222,116 was recognized as an accrued expense in the year 2023, resulting in an overstatement of the current liabilities and understatement of the surplus for the year 2023 by the same value.	The amount of Rs.1,222,116 indicated as an accrual in the financial statement is the building rent for the months of January and February 2024, and it was paid on 20.02.2024. Accordingly, it appears that the amount is an accounting error.	The expenditure should be recognized correctly according to the relevant periods.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount Rs. (Million)	Audit Evidences not Provided	Comments of the Management	Recommendation
Fixed deposit interest income	21.76	Fixed deposit renewal notices and fixed deposit registers	Answers have not been given.	Relevant documents should be submitted to the audit to verify the accuracy of interest income.
Depreciation of Property, Plant and Equipment	2.12	Fixed Asset Register, including details such as dates of purchase of assets and cost thereof.	Instructions were given to the relevant officers to maintain a schedule with depreciation values for each asset with effect from the year 2025, with the date of purchase, cost, accumulated depreciation and year.	A Fixed Asset Register including all details of fixed assets should be maintained.

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 Act, No. 45 of 2000, as amended by the Sri Lanka Institute of Strategic Studies (Amendment) Act, No. 32 of 2006			
(i)	Section 10(a)	Even though the Board of Management of the Institute	It was decided at the Board of Management meeting held on 31.10.2025 to submit	An International Relations Advisory Council should

should appoint an International Relations Advisory Council comprising five persons who have achieved international eminence in the relevant subject areas, such an Advisory Council had not been appointed.

nominations for the appointment of the International Advisory Council at the next Board of Management meeting.

be appointed in accordance with the provisions of the Act.

(ii) Sections 10e(1) and (2)

The Bandaranaike International Diplomatic Training Institute should be vested in this Institute from 29 September 2006, the date of the coming into operation of the Act, and it should conduct training programmes and other courses of study as a unit of the Institute. Further, all moneys standing to the credit of any account maintained by the said Training Institute should be transferred to the Fund of the Institute and the officers and servants employed therein should be deemed to be officers and

The attention of the Board of Management of the Institute has now been drawn to the implementation of the Act and it is proposed to take the necessary action.

The Bandaranaike International Diplomatic Training Institute should be vested in this Institute in terms of the provisions of the Act.

servants of the Institute.

However, action had not been taken accordingly.

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| (b) | Section 2(iii) of Public Administration Circular No. 09/2009 dated 16 April 2009 | Even though finger scanners should be used to verify the arrival and departure of staff, action had not been taken accordingly. | Provisions have been allocated to carry out the necessary activities for the purchase of a finger scanner before the end of this year. | Action should be taken to mark the arrival and departure in accordance with the provisions of the Circular. |
| (c) | The Operational Manual introduced by Public Enterprises Circular No. 1/2021 dated 16 November 2021 | | | |
| (i) | Section 3.2.(i) | The approval of the Director General of the Department of Management Services had not been obtained for the staff, the Scheme of Recruitment, and the salary scales of the institute. | Answers have not been given. | Action should be taken to obtain the relevant approval in terms of the provisions of the Circular. |
| (ii) | Section 6.6 | (i) Even though the financial statements should be submitted to the Auditor General within 02 months after the end | Since there was no active Board of Directors after January 2024, this delay occurred due to the inability to obtain the approval of the Board of Directors for the financial statements. However, after the appointment of | Action should be taken to submit the financial statements in terms of the provisions of the Circular |

of the financial year, the financial statements for the year under review were submitted on 16 September 2025 with a delay of eighteen months.

the new Board of Directors in May 2025, the financial statements for the year 2023 were submitted to the audit after obtaining approval.

- (ii) Even though the Annual Reports for a particular year should be tabled in Parliament within five months after the end of the financial year, the institute had not tabled the Annual Reports since 2007.
- Since there were defects in the data and forms of the Annual Reports from 2016-2022, it has been informed to rectify and submit the same. Action will be taken to submit the Annual Report-2023 to Parliament after obtaining approval.
- Action should be taken to table the Annual Reports in terms of the provisions of the Circular.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs.16,756,536, and the corresponding surplus in the preceding year amounted to Rs.2,900,074. Therefore, an improvement amounting to Rs.13,856,462 of the financial result was observed. The reasons for this improvement were mainly due to the increase in course fee income and Treasury bill interest income of Rs.4,377,639 and Rs.10,440,403 respectively during the year under review.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) All the activities such as preparation of bank reconciliations of the	Answers have not been given.	Adequate distribution of

Institute, depositing money in the bank, writing cheque books, maintaining the cash book were carried out by the only one lady officer. Due to the absence of adequate distribution of work, internal control regarding such activities was in weak condition.

work should be carried out to maintain internal controls firmly.

- (b) The Institute had not prepared an Annual Action Plan including activities targeted to achieve the objectives mentioned in the Sri Lanka Institute of Strategic Studies (Amendment) Act, No. 32 of 2006.
- I have noted that an Annual Action Plan, including the stipulated activities, will be prepared and submitted since 2026.
- An Annual Action Plan should be prepared including activities targeted to achieve the objectives mentioned in the Act, and get it approved.