

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Institute of Policy Studies of Sri Lanka for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year 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 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 financial statements give a true and fair view of the financial position of as at 31 December 2024, and 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 the 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 of the Institute.

1.4 Audit Scope

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 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 statements 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 Audit Observations on the Preparation of 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 Accounting Policies

Audit observation	Management Comments	Recommendation
Since there is no Sri Lanka Public Sector Accounting Standard for classification, presentation, measurement and disclose of financial instruments, for that an accounting policy should have been developed and stated in its financial statements by following Sri Lanka Accounting Standards, however action had not been taken accordingly.	It has been stated in the Section 1.3 (d) of summary of the significant accounting policies in the financial statements.	Developing an accounting policy following Sri Lanka Accounting Standards should be stated in its financial statements.

1.5.3 Accounting Deficiencies

Audit observation	Management Comments	Recommendation
As per the bank confirmations have been obtained by the Institute of Policy Studies of Sri Lanka, the balance of the bank current account has been Rs.50,000 as at the date of 31 December 2024 and the balance of the savings account was Rs.3,595,838. But when preparing bank reconciliation the balance as per the bank statement had been taken as Rs. 3,645,838 as per the bank confirmations have been given by the bank, the balance had been a Rs.50,000. When presenting financial statements, the balance of Rs.3,595,837 in the savings account has not been stated under the cash and cash equivalent and under the other income only the interest amount of Rs.179,823 received from the savings account had been stated.	Accordingly the issues stated in the audit query that rule is being used for investment accounts and to that is not being used for the operational accounts. Therefore for the purpose of accounting one ledger account has been used for recording transactions of both accounts.	Should be presented as possible to reconcile the bank statements, confirmation of bank balances.

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

Reference to the Laws, Rules and Regulations etc.	Non-compliance	Management Comment	Recommendation
Paragraph 3.1 of the Operational Manual of the Public Enterprises Circular No.2021/1 dated 16 November 2021	There is no approved cadre for the institute and compliance with the operational manual which has been prepared by the institute, a cadre has been employed for a period of one year or less than that.	The operational Manual has been prepared as a guide for the operational activities including the cadre of the institute, recruitment procedure, promotions and the approval of the Ministry of Finance as per the instructions given in the COPE Committee in the year 2014.	Action should be taken in accordance with the Circular.

2. Financial Review

2.1 Financial Result

The operating results of the year under review amounted to a surplus of Rs. 52,812,691 and corresponding surplus in the preceding year amounted to Rs. 229,992,572. Accordingly, a deterioration amounting to Rs. 177,179,881 in the financial result was observed. The increase in expenditure and decrease in income had been mainly attributed to this improvement.