

Policy Studies of Sri Lanka - 2020

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 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be report 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 2020, 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 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 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 Auditor's Responsibilities for the Audit of the 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 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 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 Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules Regulations	Non-compliance	Management Comment	Recommendation
Paragraph 03 of the Circular letter No. SC & PMU/Grant/19 dated 25 July 2019 of the Department of External Resources.	Although all foreign grants should be obtained through the Department of Foreign Resources with the knowledge and consent of that Department, the grants amounting to Rs.48,582,735 received during the year for the projects had not been acted upon accordingly.	The Department of External Resources had been informed of the grants received.	That all the money received under the project should be acted upon in accordance with the circular.
The Department of Public Enterprise Circular No. PED 12 dated 02 June 2003.	Although each institute must maintain an approved cadre, the cadre had not been	It is not possible to maintain an approved cadre for the institute due to two reasons such as the research	It is necessary to approve a permanent cadre that is designed to

- (i) Section 9.2(b) approved for the conducted varies according to be able to appoint institute. the policy priorities of the officers as the government and the project's research process revenue receipts are primarily changes. determined at the discretion of the donor and the policy matters.
- (ii) Section 9.3.1 (i) Although a recruitment and promotion procedure should be prepared for the institution and the approval of the Board of Management of the institution, the relevant Ministry and the Department of Public Enterprises of the Treasury should be obtained, the institute had not done accordingly. The recruitment and promotion of the cadre of the Institute had been mentioned by the Board of Directors in the Operational Manual (MOO). Action should be taken in accordance with the circular instructions as a public enterprise.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.29,076,498 and the corresponding surplus in the preceding year amounted to Rs.30,007,646. Therefore a deterioration amounting to Rs.931,148 of the financial result was observed. The reason for the deterioration is mainly due to the increase in income tax.

2.2 Trend Analysis of major Income and Expenditure items

The following observations are made in this connection.

- I. Government grants received during the year under review had increased by 83 percent compared to the previous year.
- II. The Project revenue had increased by 70 percent or Rs.29.9 Mn, but interest income had decreased by Rs.16.5 Mn or 17 percent compared to the previous year.
- III. Although revenue was not earned in this year due to the inability to hold seminars and workshops, a net income of Rs.7.8 Mn. had been earned from such activities in the previous year.
- IV. The research expenditure had increased by Rs.36 percent compared to the previous year and other operating expenses decreased by Rs.6 Mn or 31 percent. The income tax on interest income had increased by 1485 percent from Rs.0.7 Mn to Rs.11.1 Mn due to the change in the income tax rates.