

APAG/BSD/DRK

**INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF CENTRE FOR POVERTY ANALYSIS (CEPA)****Report on the Financial Statements**

We have audited the accompanying financial statements of Centre for Poverty Analysis (CEPA), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.


Opinion

Cash and bank balance include an amount of Rs.992,680/- which represents balances in an account which is held in the name of three employees of the Company and not in the name of CEPA.

In our opinion, except for the effect on the financial statements of the matters referred in above note, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2008 and the financial statements give a true and fair view of the Company's state of affairs as at 31 December 2008 and its income and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.



08 April 2009
Colombo

CENTRE FOR POVERTY ANALYSIS (CEPA)

BALANCE SHEET

As at 31 December 2008

	Note	2008 Rs.	2007 Rs.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment - At Cost	7	3,171,763	4,137,091
		<u>3,171,763</u>	<u>4,137,091</u>
Current Assets			
Trade and Other Receivables	8	19,614,140	42,974,744
Income Tax Receivable		190,724	-
Cash and Bank Balances	12	10,049,581	11,293,578
		<u>29,854,445</u>	<u>54,268,322</u>
Total Assets		<u><u>33,026,208</u></u>	<u><u>58,405,413</u></u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Accumulated Surplus		10,096,080	14,722,088
Total Equity		<u>10,096,080</u>	<u>14,722,088</u>
Non Current Liabilities			
Employment Retirement Benefits	9	3,002,938	2,231,871
Grants & Subsidies	10	400,000	-
		<u>3,402,938</u>	<u>2,231,871</u>
Current Liabilities			
Trade and Other Payables	11	9,753,170	26,792,700
Income Tax Payable		-	503,505
Interest Bearing Liabilities - Bank Overdraft	12	9,774,020	14,155,249
		<u>19,527,190</u>	<u>41,451,454</u>
Total Equity and Liabilities		<u><u>33,026,208</u></u>	<u><u>58,405,413</u></u>

These financial statements are in compliance with the requirements of the Companies Act No. 7 of 2007.



.....
Finance Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements.
Signed for and on behalf of the Board by.



.....
Director



.....
Director

The accounting policies and notes on pages 6 through 12 form an integral part of the financial statements.

08 April 2009

Colombo

INCOME STATEMENT

Year ended 31 December 2008

		Year Ended 31.12.2008	Year Ended 31.12.2007
	Note	Rs.	Rs.
Revenue	3	50,478,879	57,970,220
Staff Costs		(32,210,002)	(33,414,820)
Other Operating Expenses		(18,320,148)	(18,968,746)
Finance Costs	5	<u>(2,098,013)</u>	<u>(643,564)</u>
Income for the Year Before Tax		(2,149,284)	4,943,090
Taxation	6	(50,893)	(434,813)
Income for the year after tax		<u><u>(2,200,177)</u></u>	<u><u>4,508,277</u></u>

The accounting policies and notes on pages 6 through 12 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Note	Accumulated Surplus Rs.	Total Rs.
Balance as at 31 December 2006		13,706,724	13,706,724
Net Surplus/(Deficit) for the period		4,508,277	4,508,277
Contribution to Development Fund - Appropriation from Surp - 10% of Programme Funds	15	- (1,740,865)	- (1,740,865)
Contribution to Client's Fund	15	(1,752,048)	(1,752,048)
Balance as at 31 December 2007		<u>14,722,088</u>	<u>14,722,088</u>
Net Surplus/(Deficit) for the period		(2,200,177)	(2,200,177)
Contribution to Development Fund - Appropriation from from Surplus Income - 10% of Programme Funds		(1,072,514)	(1,072,514)
Contribution to Clients Fund	15	(1,353,317)	(1,353,317)
Balance as at 31 December 2008		<u><u>10,096,080</u></u>	<u><u>10,096,080</u></u>

The accounting policies and notes on pages 6 through 12 form an integral part of the financial statements.

CASH FLOW STATEMENT

Year ended 31 December 2008

	Note	2008 Rs.	2007 Rs.
Cash Flows From / (Used in) Operating Activities			
Net Surplus before Income Tax Expense		(2,149,284)	4,943,090
Adjustments for			
Disposal Loss /(Gain)		55,247	(40,000)
Depreciation	7	2,534,878	2,431,835
Finance Costs	5	2,098,013	643,564
Provision for Defined Benefit Plans	9	1,199,917	769,897
Operating Surplus/(Deficit) before Working Capital Changes		3,738,771	8,748,386
(Increase)/ Decrease in Trade and Other Receivables		23,124,160	(21,309,822)
Increase/ (Decrease) in Trade and Other Payables		(17,543,035)	(589,001)
Cash Generated from Operations		9,319,896	(13,150,437)
Finance Costs Paid		(2,098,013)	(643,564)
Gratuity paid	9	(428,850)	-
Income Tax Received/(Paid)		(5,173)	(2,502)
Net Cash From/(Used in) Operating Activities		6,787,860	(13,796,503)
Cash Flows from / (Used in) Investing Activities			
Cash Received from Fixed Asset Disposals		44,000	40,000
Acquisition of Property, Plant & Equipment	7	(1,268,797)	(2,163,369)
Net Cash Flows from/(Used in) Investing Activities		(1,224,797)	(2,123,369)
Cash Flows from /(Used in) Financing Activities			
Payment to Development Fund		(1,072,514)	(2,528,863)
Payment to Clients Fund		(1,353,317)	(1,618,623)
Net Cash Flows from/(Used in) Financing Activities		(2,425,831)	(4,147,486)
Net Increase/(Decrease) in Cash and Cash Equivalents		3,137,232	(20,067,358)
Cash and Cash Equivalents at the beginning of the year	12	(2,861,671)	17,205,687
Cash and Cash Equivalents at the end of the year	12	275,561	(2,861,671)

The accounting policies and notes on pages 6 through 12 form an integral part of the financial statements.

1. CORPORATE INFORMATION

1.1 General

The Centre for Poverty Analysis is a limited liability company incorporated (on April 24, 2001) under Section 21 of the Companies Act as a non-profit Company and domiciled in Sri Lanka. The registered office of the Company is located at 29, Gregory's Road, Colombo 7, Sri Lanka.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were providing services on Applied Research, Advisory Services, Training, Dialogue and Exchange and implementation of the following Programmes.

- Poverty Impact Monitoring
- Poverty and Conflict
- Poverty Assessment and Knowledge Management

1.3 Date of Authorization for Issue

The Financial Statements of Centre for Poverty Analysis for the year ended 31 December 2008 were authorized for issue in accordance with a resolution of the board of directors on 08 April 2009.

2.1 BASIS OF PREPARATION

These Financial Statements presented in Sri Lanka Rupees have been prepared on a historical cost basis.

2.1.1 Statement of compliance

The Financial Statements of Centre for Poverty Analysis have been prepared in accordance with Sri Lanka Accounting Standards (SLAS).

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.2.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.2.2 Taxation

Current Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislations.

2.2.3 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

Other receivables and dues from Related Parties are recognised at cost less allowance for bad and doubtful receivables.

2.2.4 Cash and Cash Equivalents

Cash and cash equivalents are cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.2.5 Property, Plant and Equipment

a) Cost

Plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

b) Depreciation

The provision for depreciation is calculated by using a straight line method on the cost of all property, plant and equipment, in order to write off such amounts over the following estimated useful lives by equal installments.

Computers	Over 3 years
Office Equipment	Over 3 years
Office Interiors	Over 3 years
Furniture & Fittings	Over 4 years

Property, Plant and Equipment are depreciated from the date the assets are available for use over their estimated useful lives.

2.2.6 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the balance sheet equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt within the income statement, after making due adjustment for payment made.

The gratuity liability is not funded nor actuarially valued. This item is grouped under Deferred Liabilities in the Balance Sheet.

b) Defined Contribution Plans – Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with respective Statutes and Regulations. The Company contributes 12 % and 3% of the gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.2.7 Revenue Recognition

a) Fee based income

Fee based income is recognised on straight-line basis over the period of the project and the income on incompleting projects deferred in the Balance Sheet and to be recognized as income over the period of projects.

b) Unrestricted Programme Funds

Unrestricted programme funds are recognised in the financial year to which it relates to.

c) Unrestricted Revenue Grants

Unrestricted Revenue grants are recognised in the financial year to which it relates to.

d) Others

Other income is recognised on an accrual basis.

2.2.8 Expenditure Recognition

- a) Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the surplus for the year.
- b) For the purpose of presentation of the Income Statement, the Directors are of the opinion that the function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

3. REVENUE

3.1 Summary

Fee based Services
 Programme Funds (Unrestricted)
 Other Income

Year Ended 31.12.2008 Rs.	Year Ended 31.12.2007 Rs.
37,262,422	25,352,837
4,375,248	20,809,815
8,841,209	11,807,568
<u>50,478,879</u>	<u>57,970,220</u>

4. SURPLUS/(DEFICIT) FROM OPERATING ACTIVITIES

Stated after charging -

Auditor's Remuneration (Fees and Expenses)
 Depreciation
 Staff Costs include -
 Gratuity
 EPF and ETF
 Other Staff Costs

41,940	44,838
2,534,878	2,431,835
1,199,917	769,897
2,727,909	2,543,456
<u>28,282,176</u>	<u>30,101,467</u>

5. FINANCE COST

Interest on Overdrafts

<u>2,098,013</u>	<u>643,564</u>
------------------	----------------

6. INCOME TAX EXPENSE

Current Income Tax

Current Tax Expense on Ordinary Activities for the year (6.1)
 Under/(Over) provision of taxes in respect of prior years

318,898	434,813
(268,005)	-
<u>50,893</u>	<u>434,813</u>

6.1 Reconciliation between Current Tax Expense and Taxable Income

Taxable Income
 Statutory Tax Rate (Tax Rate - 10% + SRL - 1.5%)
 Current Income Tax Expense

2008 Rs.	2007 Rs.
3,141,853	4,348,129
10.15%	10%
<u>318,898</u>	<u>434,813</u>

7. PROPERTY, PLANT AND EQUIPMENT

7.1 Gross Carrying Amounts

At Cost

	Balance as at 01.01.2008 Rs.	Additions/ Transfers/ Acquisitions Rs.	Disposals/ Transfers Rs.	Balance as at 31.12.2008 Rs.
Motor Vehicles	-	400,000	-	400,000
Office Furniture	1,135,665	-	(40,550)	1,095,115
Computers	7,409,599	1,022,300	(478,950)	7,952,949
Office Equipment	2,300,844	246,497	(220,036)	2,327,305
Office Interiors	640,318	-	(112,750)	527,568
	<u>11,486,426</u>	<u>1,668,797</u>	<u>(852,286)</u>	<u>12,302,937</u>

7.2 Depreciation

At Cost

Motor Vehicles	-	-	-	-
Office Furniture	761,032	189,255	(39,188)	911,099
Computers	4,454,593	1,916,916	(440,572)	5,930,937
Office Equipment	1,694,729	321,797	(220,036)	1,796,490
Office Interiors	438,981	106,910	(53,243)	492,648
	<u>7,349,335</u>	<u>2,534,878</u>	<u>(753,039)</u>	<u>9,131,174</u>

7.3 Net Book Values

	2008 Rs.	2007 Rs.
Motor Vehicles	400,000	-
Office Furniture	184,016	374,633
Computers	2,022,012	2,955,006
Office Equipment	530,815	606,115
Office Interiors	34,920	201,337
Total Carrying Amount of Property, Plant & Equipment	<u>3,171,763</u>	<u>4,137,091</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

8. TRADE AND OTHER RECEIVABLES	2008	2008	2008	2007
	Current	Non Current		
	Rs.	Rs.	Rs.	Rs.
Trade Debtors	14,404,059	14,763,873	29,167,932	35,590,029
Other Debtors	41,456	-	41,456	934,720
Development Funds	1,728,855	-	1,728,855	14,373,336
Deposits, Advances and Prepayments	3,213,520	-	3,213,520	2,419,756
Loans to Company Officers (8.1)	226,250	-	226,250	293,608
Deferred Revenue (10.1)	-	(14,763,873)	(14,763,873)	(10,636,705)
	<u>19,614,140</u>	<u>-</u>	<u>19,614,140</u>	<u>42,974,744</u>

8.1 Loans to Company Officers	2008	2007
	Rs.	Rs.
Balance as at the beginning of the year	293,608	256,410
Add : Loans granted during the year	390,000	380,000
Less : Repayments	(457,358)	(342,802)
Balance as at the end of the year	<u>226,250</u>	<u>293,608</u>

9. EMPLOYMENT RETIREMENT BENEFITS	Balance	Charge for	As at
	as at		
	01.01.2008	the year	31.12.2008
	Rs.	Rs.	Rs.
Retirement Benefit Obligations - Gratuity	<u>2,231,871</u>	<u>1,199,917</u>	<u>(428,850)</u>
			<u>3,002,938</u>

10. GRANTS & SUBSIDIES	2008	2007
	Rs.	Rs.
As at 01 January 2008	-	-
New grants received	400,000	-
Provision / (Release) Made During the Year	-	-
As at 31 December 2008	<u>400,000</u>	<u>-</u>
	2008	2007
	Rs.	Rs.
10.1 DEFERRED REVENUE		
Fee based income	<u>14,763,873</u>	<u>10,636,705</u>
Above balance is the income on incomplete projects deferred in the Balance Sheet and to be recognised as income over the period of projects.		
	Rs.	Rs.
11. TRADE AND OTHER PAYABLES		
Advances	1,759,026	5,864,275
Sundry Creditors including Accrued Expenses	2,916,265	4,535,512
Development Fund	1,072,504	13,740,865
Clients Fund	4,005,375	2,652,048
	<u>9,753,170</u>	<u>26,792,700</u>
	2008	2007
	Rs.	Rs.
12. CASH AND CASH EQUIVALENTS		
Component of Cash and Cash Equivalents		
Favourable Cash & Cash Equivalent Balance		
Cash and Bank Balances	10,049,581	11,293,578
Unfavourable Cash & Cash Equivalent Balance		
Bank Overdrafts	(9,774,020)	(14,155,249)
Total Cash and Cash Equivalents for the purpose of Cash Flow Statement	<u>275,561</u>	<u>(2,861,671)</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

13. COMMITMENTS AND CONTINGENCIES

Capital Commitments

The Company does not have significant Capital Commitments as at the Balance Sheet date.

14. EVENTS OCCURRING AFTER BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the financial statements.

15. THE DEVELOPMENT FUND AND CLIENTS FUND

An amount of 10% or 2% of the fee based income and 10% of the programme funds on a receipt basis, are contributed to the Clients (Innovation) Fund and the Development Fund respectively. The development fund is separately administered and is invested in money market investments.

16. RELATED PARTY DISCLOSURES

Transactions with Key Management Personnel of the Company

- 16.1** Ms. Kathrin Lorenz, Director (Resigned w.e.f. 04/04/08) of the Company is also the Head of Advisory Service for Conflict Transformation Project of the GTZ. GTZ and under mentioned projects have not contracted with the Company during the period from 01 January 2008 to 04 April 2008.

	2008 Rs.	2007 Rs.
1. GTZ - Poverty Symposium	-	500,000
2. Training Programme for the Pool of Regional Resource persons - FLICT	-	2,148,200
	<u>-</u>	<u>2,648,200</u>

- 16.2** Dr. Johanna Boestel, Director (Resigned w.e.f. 01/07/08) of the Company is also an economist of the ADB which sponsors the following assignments, from which the revenue earned during her tenure from 01 January 2008 to 01 July 2008 is given below.

1. Poverty Assessment and Knowledge Management Programme	-	11,043,394
2. Independent External Monitoring of Resettlement Activities of the Southern Transport Development project	2,450,488	10,163,956
3. Power Sector Development Project (NG)	2,295,561	-
4. Sustainable Power Sector Development Project (PF)	1,824,788	-
	<u>6,570,837</u>	<u>21,207,350</u>

- 16.3** Dr. Markus Mayer, Director (Appointed w.e.f. 30.04.2008) of the Company is also the Director of International Alert Sri Lanka which sponsors the following assignment, from which the revenue earned for the year is given below.

Pilot Programme for Monitoring the impact of the Corporate Social Responsibility (CSR) efforts in the Sri Lankan Private Sector

1,115,135	-
<u>1,115,135</u>	<u>-</u>