

Sri Lanka Accreditation Board for Conformity Assessment - 2014

The audit of financial statements of the Sri Lanka Accreditation Board for Conformity Assessment for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the income statement and statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 29 of Part IV of the Sri Lanka Accreditation Board for Conformity Assessment Act, No. 32 of 2005. My comments and observations which I consider should be published with the Annual Report of the Board in terms Section 14 (2) (c) of the Finance Act appear in this report.

1.2 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 and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI-1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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 Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Accreditation Board for Conformity Assessment as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard.

2.2 Review on Financial Statements.

2.2.1 Sri Lanka Public Sector Accounting Standards

(a) Sri Lanka Public Sector Accounting Standard No 02

Although Cash Flow Statement should be prepared showing cash inflows and outflows during the year in accordance with Sri Lanka Public Sector Accounting Standard No. 02, action contrary to that had been taken in the following instances

- (i) The value of the motor vehicle received during the year from the Treasury as grants amounting to Rs. 8,150,000 had been accounted as a cash outflow by considering it a receipt of cash, and a purchase.
- (ii) A sum of Rs. 175,000 granted to employees of the Board as distress loans in the year 2014, and Rs. 319,100 of recovered distress loans, had not been separately stated under the investments of the cash flow statement in accordance with Sections 25(e) and (f) of the Standard.

(b) Sri Lanka Public Sector Accounting Standard No 07.

Action had not been taken to revalue the fully depreciated assets valued at Rs. 3,710,570 shown in the financial statements which are being used by the Board at present.

2.2.2 Accounting Policies

The policy adhered to by the Board in allocating gratuities, had not been disclosed together with the accounts.

2.3 **Non-compliance with Laws, Rules , Regulations and Management Decisions.**

The following instances of non-compliances were observed in audit.

Reference to Laws, Rules and Regulations

Non-compliance

(a) Sri Lanka Accreditation Board for

Conformity Assessment Act,

No 32 of 2005

(i) Section 3(d)

Out of the income of Rs. 427,500 earned by training the Assessors , a function of the Board, only 10 per cent had been charged as royalty, while the rest had been paid to the officers.

(ii) Section 7(b)

Pursuant to an agreement entered into on behalf of the Board, a person either holding a certain right, or receives a benefit, is disqualified in being a member of the Board of Control. However, a person receiving a sum of Rs. 24,000 as an assessment allowance, had been appointed as a member of the Board

(b) Establishments Code of Democratic Socialist Republic of Sri Lanka

(i) Section 10.2 of Chapter XV, and Section 2(1) of Finance and Planning Circular No MOFP 01/2010/01 dated 11 October 2010

Instances of officers of the Board , proceeding abroad without obtaining the approval of the Prime Minister, were observed. A sum of Rs.109,691 had been spent from the fund of the Board on private tours undertaken after the relevant official foreign tour.

- (ii) Paragraph 3 of Chapter XV Three probationary officers had been allowed to participate in foreign trips without entering into any bond whatsoever.
- (c) Public Enterprises Circular No. PED/12 of 02 June 2003
- (i) Section 4.2.2 The Performance Report had not been prepared in a manner to facilitate comparison of the Action Plan and the financial results of Performance Reports .
- (ii) Section 8.3.3(d) Instead of payment of performance-based incentives for the year 2014, provisions amounting to Rs. 255,000 had been allocated for 17 employees at Rs. 15,000 each without obtaining Treasury approval.
- (iii) Section 9.14.2 An Office Handbook on human resource management of the Board under the approval of the Board of Management, had been issued on 01 July 2013 without obtaining the approval of the Secretary to the Treasury.
- (d) Public Enterprises Circular No. 01/2013 of 15 January 2013 In spite of being stated that it is the responsibility of the Board of Control to prepare the plans for successors to be appointed for the vacancies created when the officers of the top level management of the Public Enterprises are retired, action had not been taken in such a manner in connection with Additional Director – II of the Sri Lanka

Accreditation Board for Conformity Assessment, and the post of Chairman that became vacant in June 2015

- (e) Finance and Planning Circular No MOFP 01/2010/01 of 11 October 2010 A sum of Rs. 172,628 had been paid erroneously despite foreign institutions had provided certain facilities when officers of the Board proceeded abroad for study / training programs.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Board for the year ended as at 31 December 2014 had been a surplus of Rs. 4,936,649 as compared with a surplus of Rs. 59,632 for the previous year , showing an improvement of Rs.4,877,017 in the financial result. The improvement had mainly been contributed by the increases in the income generated through accreditation and training programs by 59 per cent and 31 per cent respectively.

4. Operating Review.

4.1 Performance

The following observations are made.

(a) Promotion of Accreditation

The following observations are made.

- (i) Even though it had been planned during the year under review to obtain new applications for 16 laboratories, enter into new agreements with a

proficiency service provider, renew accreditations of 08 medical laboratories, and award new accreditations on 06 laboratories, for the promotion of accreditation, obtaining applications for 07 laboratories, renewal of accreditations of 03 medical laboratories, and obtaining new application for a laboratory, had only been done.

- (ii) Although it had been planned in the year under review as in the preceding year to make 02 presentations to the electronic media, and 02 discussions with the print media in order to make people aware of the accreditation, only 01 discussion had been held with the print media for the entire 02 years.

(b) Supply of Accreditation Services

The following observations are made.

- (i) The targets in respect of the year under review for the grant of accreditations , which is the main function , had been to accredit 13 laboratories, 04 medical centres, and one each under the groups such as calibration institutions and certification institutions (manufacturing systems and persons). Out of those, 09 laboratories and 03 medical centres only had been subjected to accreditation.
- (ii) Eventhough the training of 100 assessors under capacity development, had been planned only 70 had been trained.
- (iii) Although there had been 04 targets for investigation on performance during the year under review, only 50 per cent of that had been achieved.
- (iv) Although activities related to 04 international institutes had been planned under international recognition, those targets had not been achieved.

- (v) Although it had been targeted to generate an income of Rs. 8 million from the Head Office of the Board, only 68 per cent had been generated.

4.2 Management Inefficiencies

The following observations are made.

- (a) No application had been received up to March 2015 for the online computer system introduced by the Board to facilitate the application for accreditation. A service charge amounting to Rs. 1,557,751 had been paid during the period from 10 March 2011 to December 2014 in that regard. Despite an officer had been appointed for six months from a private institution on the assignment basis for a monthly allowance of Rs. 30,000 for debugging this software, the relevant purpose had not been achieved.
- (b) The Visa fee amounting to Rs. 11,345 of an external person who had participated in a foreign program held in Canada, had been paid by the Board.
- (c) A sum of Rs. 1,000,000 provisioned under the reserve for covering contingent liabilities of the Recurrent Object, had not been utilized.

4.3 Staff Administration

- (a) A comparison of the actual and approved staff revealed vacancies in 04 staff grade posts as at 31 December 2014.
- (b) The post of Additional Director of the Board had remained vacant since the date the cadre had been approved. A sum of Rs. 123,536 had been spent on newspaper advertisements published from time to time from the year 2012 to 31 December 2014 to appoint an officer. However, action had not been taken for recruitment.

- (c) The post of Internal Auditor approved in November 2012 had remained vacant up to the date of audit. An officer had been appointed on the basis of covering up duties from the year 2008 to November 2014, paying a monthly allowance of Rs.8,000
- (d) Although the Department of Management Services had approved 02 posts of Junior Management category on 17 February 2014, the objectives of the Board could not be achieved during the year under review as recruitment had been made only in February 2015.

5. Accountability and Good Governance.

5.1 Budgetary Control

The recurrent budget estimate for the year 2014 amounted to Rs. 38 million, whereas the actual expenditure of the Board amounted to Rs. 43 million as at 31 December 2014. As expenditure exceeding the approved budget estimate by 13 per cent had been incurred, the budget of the Board had not been made use of as an effective instrument of management control.

6. Systems and Control

Deficiencies observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of systems and control.

- (a) Budgetary Control
- (b) Staff Administration
- (c) Accounting