Sri Lanka Standards Institution

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Standard Institution as at 31 December 2012 and its financial performance and cash flows for the year then ended an accordance with Generally Accepted Accounting Principles

1:2 Comments on Financial Statements

1:2:1 Accounting Policies

The following accounting policies had not been correctly disclosed in the financial statement.

(i) Even though the basis for the valuation of stocks had not changed as compared with the preceding year, it was stated that the basis for valuation of stocks had been changed from Last In First Out (LIFO) to First In First Out (FIFO) basis.

(ii) The basis of making provisions for bad debts for debtors had not been disclosed in the financial statements.

1:2:2 Accounting Deficiencies

The following observations are made.

(a) Even though the gross salary should be taken into account in making provisions for gratuity in terms of Section 3(2) of the Payment of Gratuity Act, No. 12 of 1983, the basic salary had been used as the basis.

(b) Even though the depreciation on motor vehicles for the year under review amounted to Rs.6,097,818, a sum of Rs.1,405,561 had been recorded in the accounts. As such, the depreciation on motor vehicles had been understated by a sum of Rs.4,692,257.

(c) The depreciation on the laboratory and technical equipment for the year under review amounted to Rs.15,745,089, and that had been shown as Rs.16,219,865 in the accounts. As such the depreciation had been overstated by a sum of Rs.474,775.

(d) The income of Rs.1,276,112 received from the sale of standards received from an institution had been shown as expenditure payable in the financial statements.

1:2:3 Unexplained Differences

The following observations are made.

(a) Even though the balance of the debtors as at the end of the year under review according to the financial statements amounted to Rs.41,305,888 according to the Ledger Account, that amounted to Rs.40,820,029. As such the difference amounted to Rs.485,859.

(b) The debtors balance as at 31 December 2012 according to the schedules of the Accounts Division amounted to Rs.40,858,140 and according to the records of the Internal Audit Unit the balance amounted to Rs.41,856,181 and the difference amounted to Rs.998,040.

1:2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliance with the following laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules Regulations, etc.	Non-compliance
(a) Financial Regulation 756	An Annual Board of Survey had not been conducted in respect of 05 items of non-current assets valued at Rs.664,289,341.

(b)	Public Finance Circular No. PF/PE 05 of 11 January 2000.	Sums totalling Rs.20,842,206 had been paid for leave not availed as incentives without obtaining the approval of the General Treasury.
(c)	Management Services Circulars No. 43(!) of 13 September 2011.	(i) Even though the payment of adjustment allowance should be completely stopped with effect from 01 July 2011 the adjustment allowance amounting to Rs.166,305 had been paid in respect of the year 2012 as well.
		(ii) An excess provision amounting to Rs.51,662 had been made for 14 officers due to the inclusion of the adjustment allowance in the computation of gratuity.
(d)	Public Finance Circular No. 353(5) of 31 August 2004.	Even though two motor vehicles of the Institution had been taken off from running action had not been taken for the disposal of those motor vehicles.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the financial results of the Institution for the year ended 31 December 2012 amounted to a surplus of Rs.69,661,501 as compared with the corresponding surplus of Rs.101,032,277 for the preceding year, thus indicating a deterioration of Rs.31,370,776 in the financial results. The increase of personal emoluments by a sum of Rs. 38 million and the other expenditure by a sum of Rs.33 million had affected the deterioration.

2:2 Analytical Financial Review

Even though the operating income for the year under review indicated an increase of 14 per cent, all the expenditure as compared with the preceding year had increased in the ranges of 50 per cent to 565 per cent and that had resulted in the decrease of the surplus by 31 per cent.

2:3 Legal Action Instituted against or by the Institution

Even though a sum of Rs1,451,323 had been deposited in the Office of the Commissioner General of Labour in accordance with the decision of a case filed against the Institution by an officer dismissed from service, action had not been taken for the recovery of a sum of Rs.148,798 due from that officer to the Institution.

3. Operating Review

3:1 Physical Performance

The following observations are made.

(a) A reconciliation of the Action Plan for the year prepared by the Institution with the actual performance revealed that the targets set for the year under review had not been achieved as expected. Details given below.

Division	Item	Target		Actual Preferred	Targets not Achieved
		2012	2011	2012	
Marketing and Promotion Division	Dissemination of Consumer Information through Media	20	14	12	08
	Grant of Standard Awards	15	10	08	07
Standards Certification Division	Registration of Foreign Suppliers	50	30	07	43

	Registration of Fish Processing Institution	30	50	14	16
Systems Certification Division	Award of Certificates	160	140	145	15
	UTZ Certification	05	--	--	05

(b) In setting targets, though the targets should be increased as compared with the preceding year, it was observed that the targets set had been unrealistic. The targets for achievement under certain items had been reduced.

(c) A sum of Rs.36,456,522 had been paid as incentives in the year 2012 for the enhancement of the performance of the Institution. Even though the income as compared with the preceding year had increase by 14 per cent, the expenditure had increased by 24 per cent.

3:2 Operating Inefficiencies

The following operating inefficiencies were observed.

(a) The following inefficiencies had taken place in the issue of Standards Certificates on the import of motor vehicle batteries.

(i) A certificate of conformity with Sri Lanka Standard 1126 should be issued for the release of motor vehicle batteries imported to Sri Lanka to the market. Such certificates had been issued after a delay of 06 months after obtaining the test reports.

(ii) In instances of unsatisfactory test reports, approval for the release of imported batteries had been granted considering those as marginal deviations.

(b) The following inefficiencies had taken place in the award of Systems Certificates.

(i) Even though a long period had elapsed after the establishment of the Institution, action had not been taken for the installation of a computerized database for the updated collection of income.

(ii) The once in 12 months test check of the institutions which had obtained Systems Certificates to be conducted in terms of paragraph 8.1 of Standards Management Systems Certification Scheme and clause 3.2 and ISO:9001 Systems Certification Agreement had not been done by adducing different reasons.

(iii) Even though a sum of Rs.2,724,253 remained receivable from 31 institutions which had obtained the ISO:9000 and ISO:14000 Certificates, no action in that connection could be taken as the relevant files had been destroyed.

(c) A stock of 591,905,000 kilogrammes (approximately) of Cement of which the compression value according to the Sri Lanka Standard 107:2008 had decreased to 42.5, had been released to the market.

(d) Sri Lanka Standards Institution had introduced 1448 Sri Lanka Standards for various goods up to 31 December 2012. In the grant of a Standard Certificate for a particular item of goods, all conditions in the relevant Standard should be fulfilled. But Standards Certificates had been issued deviating from the requirements in the Standard by adducing different reasons.

(e) Deviating from the procedure for the revalidation of a cancelled certificate, the validity period of a cancelled SLS Certificate of an institution had been extended based on the decision of the Licensing Committee.

(f) Out of the stocks of cement imported in 22 instances under a certain trade name from 15 September 2011 and 20 April 2012, a stock of 12,208,000 kilogrammes relating to 18 instances which did not conform to the specific standard had been released to the market.

(g) According to paragraph 3.1 of Guidelines on Cement TG-CP-06 the Permit for Cement should be suspended temporally or cancelled if three stocks of cement out of the cement imported in 03 months do not conform to appropriate specifications or if 03 stocks out of 10 stocks do not conform to the appropriate specifications. Without taking such action the import of cement not conforming to standards had been allowed.

3:3 Identified Losses

The Institution had incurred a loss of Rs.489,610 due to the cheques received for income had ben dishonoured. Such cheques had been dishonoured over a period ranging from 01 year to 19 years.

3:4 Delayed Projects

(a) A sum of Rs.1,400,000 had been received from the Coconut Development Authority for the grant of certificates of quality products for the coconut related industries. Even though the objective of the Project was to grant GMP Certificates to 44 institutions only 11 certificates had been granted up to May 2013.

(b) The balance sum of Rs.4,079,759 remaining from the funds of the project commenced in the year 2005 by Sri Lanka Standards Institution and the Export Development Board of Sri Lanka for the grant of quality certificates for the small and medium scale entrepreneurs had been retained idle in the current account.

3:5 Resources of the Institution given to other Government Institutions
----

Contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003, seven officers of the staff of the Institution had been deployed in the service of other institutions and the Institution had spent a sum of Rs.1,084,086 during the year under review as the salaries and allowances of those officers.

3:6 Staff Administration

The following observations are made.

(a) Disciplinary action had not been taken against two officers who continuously obtain no-pay leave from the year 2009 to the year 2012.

(b) Three officers who had obtained no-pay leave up to August of the year under review had been deployed in service during weekends.

(c) The officers who were following various academic courses with funding from the Institution had not completed the courses and fulfilled the qualifications. Detailed appear below.

(i) Even though an officer had entered into an agreement and bond for Rs.276,560 to follow a Postgraduate course in Finland from 01 April 2009 to 30 September 2009, he had not obtained the Postgraduate degree even by 31 March 2013.

(iii) Even though postgraduate course fees amounting to Rs.509,005 had been paid to three officers of the Institution in respect of the academic years 2008/10, 2009/10 and 2011 the officers had not obtained the degrees even by 31 March 2013.

4. Systems and Controls

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

(a) Stock Control
(b) Debtors Control
(c) Collection of Income
(d) Staff Control

.