

## **Sri Lanka Standards Institution - 2016**

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The audit of the financial statements of the Sri Lanka Standards Institution for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the comprehensive statement of income, statement of changes in equity and the 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 provision 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 37 (3) of Sri Lanka Standards Institution Act, No.06 of 1984. My comments and observations which I consider should be published with the Annual Report of the Institution in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Chairman of the Institution on 13 December 2017.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 Auditing 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 judgement, 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 Institution'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 Institution'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 the financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and 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**

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

### **2. Financial statements**

#### **2.1 Qualified Opinion**

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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 Standards Institution as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **2.2 Comments on Financial Statements**

##### **2.2.1 Sri Lanka Accounting Standards**

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The following observations are made.

###### **(a) Sri Lanka Accounting Standard – 01**

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Even though, an entity shall not offset income and expenses, unless required or permitted by a standard, out of total revenue of 7 types amounting to Rs.724,843,092, an expenditure of Rs.43,148,318 incurred to earn that revenue had been set off each other and shown the net revenue in the accounts.

###### **(b) Sri Lanka Accounting Standard – 07**

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Even though the cash flow statement should be prepared to indicate cash inflows and cash out flows during the year, the following deficiencies were observed in the cash flow statement prepared.

- (i) Even though, the interest income for the year under review amounted to Rs.35,738,488, a sum of Rs.34,464,118 had been adjusted to the surplus of the year in the computation of cash flow from operating activities.
- (ii) In terms of the agreement relating to the construction of the 8<sup>th</sup> floor of the Institution, the demurrage charges recoverable amounted to Rs.1,610,000. Nevertheless, in the computation of cash flows from operating activities, it had been stated as Rs.4,099,638.
- (iii) In the calculation of cash flows from operating activities, differences in the interest income and the recoveries on demurrages stated in the paragraph (i) and (ii) above, increase in debtors and other receivable accounts under changes in working capital had been understated by Rs.7,740 and the increase in other accounts payable had been overstated by Rs.1,207,528 had been tallied.

## 2.2.2 Accounting Deficiencies

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The following observations are made.

- (a) As the provision for the allowances of unavailed leave had not been estimated and accounted correctly, the allowances of Rs.881,631 relating to the year 2015 had been accounted as expenditure of the year under review whereas the allowances of Rs.461,164 relating to the year under review had been under accounted. Accordingly, surplus of the year under review had been understated by Rs.420,467.
- (b) A sum of Rs.663,675 paid as salaries to 5 employees who had been attached to the Ministry of power and Energy from the funds of the Institution in the year 2014 had been brought to accounts as an expense of the Institution instead of accounting as a receivable balance from the Ministry.

## 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Action had not been taken to recover 5 advance balances totalling Rs.30,598 brought forward since 2015 and the Bicycle loan balance of Rs.10,000 brought forward since several years.
- (b) Of the debtor balance of Rs.33,057,305 existed as at 31 December of the year under review remained for over 2 years, a sum of Rs.28,896,873 had not been recovered even by October 2017. The balances over 5 years thereof amounted to Rs.17,884,166.
- (c) Of the orders advances of Rs.3,187,024 existed as at 31 December of the year under review, 19 advances totalling Rs.1,604,926 had not been settled even by December 2017.

## 2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

### Reference to Laws, Rules, Regulations

### Non-compliance

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- (a) **Establishment Code of the Democratic Socialist Republic of Sri Lanka.**

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- (i) Section 7.1.1 of Chapter XII

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Where an employee is required to work only for a part of a Public Holiday or a "Weekly off-day", Lieu leave should be allowed only for the actual number of hours worked. According to audit test check, Lieu leave had been allowed in excess of the number of hours worked in 68 instances.

- (ii) Section 7.3 of Chapter XII Even though, the grant of lieu leave does not involve any expenses to Government, audit test check observed that 48 employees had obtained both lieu leave and overtime allowance of Rs.337,817 for working on Public Holidays.

**(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka**

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- (i) Financial Regulation 102 and 760 Although a shortage of 163 Library Books had been identified in accordance with the Board of Survey reports for the year 2015, action in terms of Financial Regulation had not been taken.
- (ii) Financial Regulation 189 Action in terms of Financial Regulation had not been taken in respect of 10 dishonoured cheques valued at Rs.382,910 brought forward from 1998.
- (iii) Financial Regulation 757 Board of Surveys for the year 2016 in the Metrology Division and Laboratories had not been finalized even up to the date of this report.

- (c) Section 4(a)(i)(iii) of the Circular No.01/2015/01 dated 15 May 2015 of the Ministry of Finance. In paying combined allowances for foreign trips, they had been paid to officers at rates relevant to the first category who were entitled to the Second category. As such, it was observed at an audit test check that an over payment of Rs.876,675 had been made to 14 officers in the year under review as combined allowances.

**2.5 Transactions not supported by adequate authority**

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Contrary to the Public Finance Circular No.PF/PE/05 dated 11 January 2001 and the Circular No.95 of the Department of Public Enterprises dated 14 June 1994, a sum of Rs.57,448,764 had been paid to the staff of the Institution as incentives, transport allowances, food allowances cloths allowances, weekend allowances and allowances for unavailed leave without the Treasury approval and only on the decision of the Board of Directors in the year under review.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Institution for the year ended 31 December 2016 had been a surplus of Rs.179,309,428 as compared with the surplus of Rs.122,985,650 for the preceding year, thus indicating an improvement of Rs.56,323,778 in the financial result of the year under review. Even though, employees remuneration contractual services expenses and other operating expenses had increased by Rs.14,296,649, Rs.12,216,366 and Rs.21,691,217 respectively, increase of operating income and financial income by Rs.92,249,093 and Rs.17,874,215 had mainly attributed to improve the above financial result.

In analyzing the financial results of the year under review and the preceding 4 years the surplus of Rs.68,349,797 in the year 2012 had continuously increased up to Rs.179,309,428 by the end of the year under review. Furthermore, employees remuneration, taxes paid to the Government and depreciation on non-current assets had been re-adjusted to the financial result, the contribution of Rs.291,105,070 of the Institution in the year 2012 had continuously improved and it had become Rs.545,617,634 by the end of the year under review.

### **4. Operating Review**

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#### **4.1 Performance**

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The general objectives of the Institution in terms of Section 3 of the Sri Lanka Standard Institution Act No.06 of 1984 are given below.

- (a) To prepare standards on national and international basis relating to structures, commodities, products, materials, practices and operations from time to time and promote the general adoption of such standards.
- (b) To promote standardization and quality control in industry and commerce.
- (c) To establish and maintained laboratories, libraries and provide relevant facilities for the purpose of furthering the practice of standardization and quality control.
- (d) To make arrangements or to provide facilities for the examination and testing of products, commodities and materials, including food and drugs, locally manufactured or imported in order to determine whether they comply with the code of Intellectual Property Act No.52 of 1979 or any other written law dealing with standards of quality or otherwise, as well as the examination of processes and practices use in the manufacture of locally produced products, commodities and materials.
- (e) To make arrangements or provide facilities for the testing and calibration of precision instruments, gauges and scientific apparatus and for the issue of certificates in regard thereto, so as to comply with the required standards.

- (f) To provide or arrange facilities for undertaking research in connection with standardization and quality control.
- (g) To operate a certification, makes schemes in accordance with the relevant provisions of this Act.
- (h) To certify the quality of commodities, materials, produced products and other things whether for local consumption or export.
- (i) To encourage and promote standardization and quality control by Educational, consultancy and other means.
- (j) To provide for co-operation with any person, association or organization outside Sri Lanka, having objects similar to those for which the Institution is established.
- (k) To Co-ordinate the efforts of producers and users for the improvement of commodities, materials, products, appliances, processes and methods.  
In the examination of the progress of action plan prepared for the achievement of the above objectives, observed the following.

- (a) It was a function of the Institution to test market samples in order to ensure the quality of goods available for consumption to protect the consumers. However, even though about 850 manufacturing entities had been registered in the Institution as standard mark licence holders, it was planned to check only 40 samples as the target for the year but only 19 samples had been checked. Out of the provision of Rs.3,770,000 had been allocated from the annual budget for the goods certification Division, a sum of Rs.2,995,904 had not been utilized and checking of market samples had been at a minimum level. As such, it was observed that the Institution had not drawn more attention to ensure the consumer protection by market sample checking.
- (b) Standardization, quality control and promotion in the Industrial and Commercial sectors is a main objective of the Institution and the following matters were observed in the audit examination carried out in that connection.

- (i) Testing of standard of canned fish in terms of SLS 591:2014

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- Although a private manufacturing company had imported 2,194,591 kg. of canned fish valued at USD 3,356,709 in 39 instances in the year under review, heavy metal test had not been carried out in any stock. as per the section 5.15 of that standard.
- Even though 2 private manufacturing companies had imported 9,924,456 kg of canned fish valued at USD 15,089,602 in 218 instances in the year under review, heavy metal test had not been carried out in the stock of 6,639,393 kg of canned fish valued at USD 10,093,925, imported in 211 instances.

(ii) Standard checking of imported galvanized pipes  
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- Out of 1,208,988 kg of galvanized iron pipes valued at USD 801,336 imported by a manufacturing company in 47 instances during the period July 2015 to December 2016, samples of 1,125,450 kg of galvanized iron pipes valued at USD 744,342 imported in 43 instances had not been tested. Furthermore, even though the standard testing of 3 instances out of 4 instances had not been complied with para meters, permission had been granted to issue 58,800 kg of galvanized iron pipes valued at USD 40,438 to the market without being rechecked the samples.
- Two importers had imported a stock of 812,494 kg of galvanized iron pipes valued at USD 553,993.88 in 5 occasions from a manufacturing company. Even though, the standard specification of them was failed, such stock had been released to the market without being re-checked the samples.

(iii) Standard testing of imported margarine in terms of SLS 1427:2011  
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A Private Company had imported 732,703 kg of margarine valued at USD 501,472 during the year under review in 32 instances but the heavy metal test had not been carried out in any case in terms of Section 5.6 of SLS 1427:2011. Further, the microbe test to be done in terms of Section 5.5 of the standard had not been carried out for 366,703 kg of margarine valued at USD 254,237 imported in 17 instances.

**4.2 Management Activities**  
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Even though, a sum of Rs.425,000 had been paid to an external party to revise the scheme of recruitment of the Institution and to study the salary anomalies in terms of Circular No. DMS/Policy/03 dated 01 November 2013 of the Department of Management Services in the years 2014 and 2015 and obtained its recommendations, the scheme of recruitment had not been revised even up to the date of this report.

**4.3 Operating Activities**  
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The following observations are made.

- (a) A methodology to check chemicals from time to time and to dispose of after being expired was not available in the Institution. At a test check observed that there were 25 items of expired chemicals during the period from 1996 to 2015, in the Stores. Action had not been taken to dispose of them and 11 items thereof had been issued for Laboratory tests.

- (b) Hundred and three items of glass equipment costing Rs.670,626 and 454 items of chemical costing Rs.1,839,338, not issued from more than 10 years had existed in the stores. Action had not been taken to check whether this stock could be used for testing or if not, to dispose of them.

#### **4.4 Under utilization of Funds**

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Certain standard parameters had not been tested in certain goods and the Management had stated that insufficient Laboratory facilities had been the cause of it. Even though, a sum of Rs.120,000,000 had been provided for the purchase of Laboratory equipment in the year under review, only a sum of Rs.61,018,418 had been utilized, and a sum of Rs.62,777,892 had not been utilized from the annual recurrent provisions.

#### **4.5 Procurement and Contract Process**

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The following observations are made in respect of obtaining motor vehicles on hire basis.

- (a) Even though an expenditure of Rs.6,618,077 had been incurred during the year under review for obtaining 05 motor vehicles on hire basis for the transport requirement of the Institution, it had not been included in the Procurement Plan. Furthermore, it had taken 11 months from February to December 2015 to complete the Procurement Process. Accordingly, it was observed that the procurement process had not been efficiently planned so as to get the required service at the right time in terms of Section 4.11 (a) of the Procurement Guidelines.
- (b) Even though, the hired vehicle rent agreements were terminated in the months of September, November and December of the year under review, without being extended the period those vehicles had been hired up to May 2017 and paid a sum of Rs.2,733,570.
- (c) In addition, to the 5 hired vehicles, a sum of Rs.2,560,094 had been paid during the year under review to a private entity for obtaining motor vehicles in various occasions and a rate of Rs.70 per Km. had been paid to those vehicles. As compared this rate with the rate paid to vehicles obtained from following the procurement process, it had been about more than Rs.25 per km. It was observed that the Management of the Institution had not paid due attention to need for economy in using government money in terms of Financial Regulation 780 of the Democratic Socialist Republic of Sri Lanka.

### **5. Accountability and Good Governance**

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#### **5.1 Procurement Plan**

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The following observations are made.

- (a) Of the procurements, the estimated cost of which amounted to Rs.247.15 million planned to be implemented during the year under review, any activity whatsoever, the estimated cost of Rs.25.2 million relating to 18 procurements had not been commenced even as at 31 December 2016.



- (b) Even the specifications in respect of 23 procurements, the estimated cost of which was Rs.39.9 million, planned to be completed by the end of the year 2016 had not been prepared in compliance with the requirements of the Institution.
- (c) One to two years had elapsed for the purchase of 5 items of equipment, the estimated cost of which amounted to Rs.46,755,034, requested by 2 divisions of the Institution in the years from 2012 to 2015 and 3 items of equipment, the estimated cost of which amounted to Rs.69,424,944 had not been received even by the date of audit in August 2017. Five items of equipment out of 8 items had been requested by the relevant Divisions as emergency requirements.
- (d) Even though, a progress report had been prepared to check the financial and physical progress in the procurement plan, the actual cost of the completed procurements and the percentage of physical progress of the procurements had not been indicated therein.

## 5.2 Budgetary Control

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Variations, ranging from 15 per cent to 560 per cent were observed between the budgeted income and expenditure and the actuals thus the Budget had not been made use of as an effective instrument of management control.

## 6. Systems and Controls

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Weaknesses in systems and controls observed in audit were brought to the attention of the Chairman of the Institution from time to time. Special attention is needed in respect of the following areas of controls.

<b>Area of System and Control</b>	<b>Observations</b>
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(a) Financial Control	<ul style="list-style-type: none"> <li>(i) Preparation and certification officers of bank reconciliations not signed by placing the date.</li> <li>(ii) It had taken a long time to settle advances.</li> <li>(iii) Not maintained and updated advance registers and non-reconciliation of subsidiary registers with ledger accounts.</li> </ul>
(b) Stock Control	<ul style="list-style-type: none"> <li>(i) A stock ledger, indicating the value of each stock group, number of units etc. had not been maintained.</li> <li>(ii) Unable to obtain an age analysis for stock balances from the computer system.</li> </ul>

- (iii) Stock books, indicating the receipt of goods to each Division and the GRN numbers, not maintained in an updated manner.
  - (iv) Stocks not located in a manner to issue goods in first in first out basis and to easy identification of goods.
  - (v) Records in respect of goods returned to stores from each division not maintained in those divisions.
  - (vi) Expired stock of chemicals, not located to identify separately.
  - (vii) A separate register for non-usable goods not maintained in an updated manner.
  - (viii) Stock books of each division not reconciled annually.
- (c) Personal Management Approval for obtaining lieu leave had not been obtained before the date of performance of duties being determined before.
- (d) Operating Control
- (i) Delays in invoicing and not reviewed from time to time.
  - (ii) Debtors and creditors schedules not periodically reconciled with the general ledger.
  - (iii) Signatures of officer who checks monthly wages summaries and approving officer were not placed.
  - (iv) Certain employees had not signed wages sheets and registers of allowances.
  - (v) Information on the licensed manufactures not updated.
- (e) Fixed Assets Control
- (i) Identification number of each item in the register of fixed assets and the divisions in which each asset was located, not recorded.

- (ii) As the register of fixed assets had not been reconciled with the Computer System of fixed assets there were differences in the assets, certain assets in the assets register and certain assets in the Computer System not indicated.
- (f) Vehicles Control
  - (i) The officer in charge of vehicles not signed the log books by placing his name and date being indicated all details of the vehicle.
  - (ii) Particulars such as information on weapons and additional equipment, meter reading at the time of fixing tyres, details of obtaining revenue licenses not indicated in the log books.
  - (iii) Replacement of tyres indicated in the log books as repair expenses.
  - (iv) Differences existed between the repair expenses in Log books and the ledger accounts and lack of supervision as well.
  - (v) Fuel consumption of vehicles not tested from time to time.