

Sri Lanka Standards Institute – 2017

The audit of financial statements of the Sri Lanka Standards Institute for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the comprehensive 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 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 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 Institute in terms of 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 Public Sector 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 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 financial statements. Sub-sections (3) and (4) of 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

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 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 Institute as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Following observations are made.

(a) Sri Lanka Accounting Standard 02

According to the Paragraph 9 of the Standard the stocks should be valued at the net realizable value or the cost whichever less and shown in the financial statements, such valuation had not been done for the Tools and Equipment costing to Rs. 1,338,348 included in the stocks amounting to Rs. 17,499,471.

(b) Sri Lanka Accounting Standard 07

In accordance with paragraph 07 of the Standard investment in repurchase market amounting to Rs. 578,000,000 and 7 day call deposits of Rs. 10,000,000 as at 31 December of the year under review had been shown as other current assets instead of showing as cash and cash equivalent in the statement of financial position.

(c) Sri Lanka Accounting Standard 39

Even though in terms of paragraph 46 (a), the effective and interest-bearing interest rate of the loans and receivables should be shown at amortized value, action had not been taken as per regarding 362 debtor balances of Rs. 33,057,304 which were existing for more than 5 years in the financial statements.

2.3 Receivable and Payable Accounts

Following observations are made.

- (a) A sum of Rs. 663,675 had been paid as salaries for 05 employees who were assigned to the Ministry of Electricity and Power in the year 2014 and action had not been taken to recover that money from the Ministry even by June 2018.
- (b) Action had not been taken until August 2018 to clear ten dishonoured cheques amounting to Rs. 382,910 received from debtors for the period from the year 1992 to the year 2014.
- (c) Although the period for release has elapsed between 04 years and 08 months for fourteen balances of Rs.1,182,511 which was included in the retention cash balance of Rs.5,927,891 in the financial statements as at 31 December for the year under review, action had not been taken to clear those balances even up to August 2018.

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

The following non compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions

Non- compliance

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| (a) Establishment Code of the Democratic Socialist Republic of Sri Lanka Chapter xxxii Sections 1.1 and 1.3 | A Staff Officer does not entitle to have the political rights and if such an officer intends to contest for an election, he should resign from his post from the public service. But an officer working as an Assistant Director post was granted no pay leave from 21 December 2017 to 10 February 2018, to contest as a candidate for the Local Government election conducted on 10 February 2018. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulations 802 (2) and 1647 (e) | A register of vehicles had not been maintained including the details such as vehicle type and design, registration number, date of purchase, cost, date of delivery, assigned date, periodic repairs etc. |
| (ii) Financial Regulations 110 | The monthly summary of travelling had not been completed in accordance with the General 268 (a) format with regard to the vehicles owned by the institution. |
| (iii) Financial Regulations 1645 (c) and 1646 | A register of losses and damages had not been maintained by the institution. |

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| (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 travelling, 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.919,933 had been made as combined allowances to the officers in 14 instances in the year under review. |
| (d) Public Administration Circular No. 9/2006 dated 30 May 2006. | Working hours of minor employees should be from 0800 hours to 1645 hours and other employees' working hours should be from 0830 hrs to 1615 hrs. However, the times of arrival for all employees of the Institute were allowed up to 08.45 hours; and there was no procedure to cover late attendance. |

2.5 Transactions not Supported by Adequate Authority

Contrary to the Public Finance Circular No.PF/PE/05 dated 11 January 2000 and the Circular No.95 of the Department of Public Enterprises dated 14 June 1994, a sum of Rs.25,024,326, Rs. 4,605,043, Rs. 3,530,025 and Rs. 1,988,465 had been paid to the staff of the Institution in the year under review as incentives, cloths allowances, weekend allowances and allowances for balance leave respectively without the Treasury approval and only on the decision of the Board of Directors.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institution for the year ended 31 December of the year under review had been a surplus of Rs.125,931,329 as compared with the surplus of Rs.163,483,894 for the preceding year, thus indicating an deterioration of Rs.37,552,565 in the financial result of the year under review. Even though, investment income of the institute had been increased by Rs. 18,923,181, decrease of operating income by Rs.22,224,157 and increase of operating expenditure by Rs.25,742,569 had mainly attributed to the above deterioration.

In analyzing the financial results of the year under review and the preceding 4 years the surplus of Rs.96,751,550 in the year 2013 had continuously increased up to Rs. 163,483,894 in the year 2016 and it was decreased to Rs.125,931,329 in the year 2017. However, after re-adjusted employees remuneration, taxes paid to the Government and depreciation on non-current assets had been to the financial result, the contribution of Rs.385,973,930 of the Institution in the year 2013 had improved to Rs. 629,302,100 in the year 2016 but it had decreased to Rs.598,375,530 in the year 2017.

4 Operating Review

4.1 Performance

4.1.1 Planning

According to the Guideline on the planning of the audit (TG-CP-04) under the certification of goods when an audit is carried out of a manufacturing institution the project officer should submit the audit plan to the licensed manufacturer before one week and get confirm and reserve a date. However, the ability to achieve good results of the audit is problematic by conducting an audit with prior notice.

4.1.2 Activities and Review

Even though if the vision is to become the premier national institution in the country that provides leadership to improve the quality of life of the community by standardization and quality improvement of all sectors of the economy, it was observed that while evaluating the performance of the institution it was not adequately done.

(a) Sample Testing of the Market

Following observations are made.

- (i) Even though according to the Act of Sri Lanka Standard institution a main function of the Institution is to test market samples in order to ensure the quality of goods available for consumption, testing market samples were not identified as a main activity.
- (ii) Market samples should be checked in accordance with the sampling design plan, in accordance with the guidelines given in GL-CR-06 issued for the granting of and monitoring of Sri Lanka Standards Certificates. Although it was planned to carry out 60 market tests with the allocation of Rs. 1,500,000 for the year under review, there was no detailed plan in this regard and only 39 out of the 60 sample tests had been conducted even there were about 850 permits holders.

(b) Testing of Standard of Canned Fish

- (i) Even though a foreign manufacturing company had imported 8,321,190 kilograms of canned fish in 144 instances and out of that sample test had been carried out for 2,406,088 kilograms of canned fish valued at USD 7,878,766 in 49 instances in the year under review, heavy metal test had not been carried out for 2,019,581 kilograms of canned fish valued at USD 7,287,075 imported in 42 instances in terms of Section 5.15 of Sri Lanka Standards 591:2014.

- (ii) Permission had been granted on 09 October 2017 to issue 34,244 kilograms of canned fish valued at USD 57,560 to the market imported by a foreign manufacturing company as stating the reports were satisfactory. However, on 16 May 2018, the Ministry of Health, Nutrition and Indigenous Medicine had informed the officers of the health sector to take action to remove this stock from the market as that stock not complied with the standard.

(c) Standard Testing of Imported Margarine

- (i) A foreign manufacturing company had imported 607,800 kilograms of margarine valued at USD 482,736 during the year under review in 28 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 306,600 kilograms of margarine valued at USD 245,426 imported in 14 instances.
- (ii) Even though permission should be granted to the products to be released to the market after considering the result of the test reports drawn up from the sample inspection, permission had been granted to issue 86,655 kilograms of margarine valued at USD 98,073 to the market imported in 6 instances before the test reports received.

(d) Standard Testing of imported Baby Soap

- (i) Even though sample test checks had been carried out for 190,727 kilograms of baby soaps imported by a foreign company in 24 instances from the year 2016 to May 2018, in each case only 4 parameters out of 6 parameters of the standard had been checked in 23 instances.
- (ii) It was observed that until the samples were tested for stocks of 152,853 kilograms in 20 instances, permission had been granted to release the stock to the warehouse of the importer on a personal guarantee. The adequacy of obtaining a personal bail to ensure that stocks are not released to the market is problematic in the audit due to stocks are not sealed by the customs.

(e) Ensuring that the Standard Safety Helmets are Released to the Market

On 20 March 7,536 helmets had been imported from an foreign manufacturing company valued at USD 20,885 in the year under review and it had been informed to the Sri Lanka Customs on 04 April 2017 that the stock can be released to the importer's store and can be released to the market after the samples have been received. According to subsequent test reports, the importer was informed on 19 May 2017 that the consignment should be re-exported because it does not comply with the two requirements of the standard. However, on 2 June 2017 the importer had informed that the entire stock was sold.

(f) Granting and Cancelling Standard Logo License

- (i) Validity period of the license obtained by a manufacturing company for an average iodine-containing salt under a certain brand had been expired on 9 February 2017 and on 14 March 2017, it was observed in the audit to update the license that the factory did not properly maintained, and did not comply with the standards. However, the license was extended by six months, the inspection report relating to the samples obtained on 14 March 2017 received on 28 August 2017 after more than 6 months from the previous license expired. According to the report, 3 parameters have failed, the license was re-extended for 10 months and obtaining samples for rechecking had been done nine months after the license re-extended.
- (ii) In terms of sections 5.2.2, 5.2.4 and 5.2.5 of the Guideline for the cancellation of licenses (PR-CP-08) when canceling a license, the SLS sign should be checked whether the usage is stopped and the cancellation must be published through the media. According to the audit test checks, 14 licenses were canceled in the years 2016 and 2017 but it had not acted according to the guidelines.

Further, followup actions had not been followed such as obtaining the first license canceling the after licensed, obtaining an estimate of how much goods are available in the market with the SLS logo as at related date, if labels already with the institute with the SLS logo inform to remove the SLS labels and ensure that the SLS logo is no longer used in the advertising media.

- (iii) Even though the manufacturers should be noticed immediately after canceling the license to avoid the use of the SLS logo, it had been taken a period of two months to 16 months to notice manufacturers relating to 13 licenses which were canceled in the 2016.

4.2 Management Activities

Following observations are made.

(a) Sample Testing

- (i) It had been lapsed between 7 months to 19 months by August 2018 to obtaining samples for testing of 344 food and non-food items imported during the year under review, and test reports had not been issued. However, during the audit inspection carried out on the 157 items out of that stock of 344, Approval had been granted to issue 97 stocks to the market and approval had been granted to release 58 stocks to the warehouse of importers after obtaining a personal guarantee that goods are not selling.

- (ii) According to the Extraordinary Gazette Notification No. 1844/49 of 8 January 2014 of the Democratic Socialist Republic of Sri Lanka, an importer shall not sell, use, or distribute products without the approval of the Director General of the Sri Lanka Standards Institution. There is a collective responsibility for the institution and the Sri Lanka Customs but, no attention had been made to implement a system to recommending to seal or providing guarantees from a third party.
- (b) Obtaining the Sri Lanka Standard logo License has been made compulsory since the year 2012 for the production of matches and 22 manufacturers had been registered relating to this. Nevertheless, when issuing the license, the security test had not been carried out in accordance with the 4.3 of the standard. In response, management had indicated that laboratory facilities were not available for Sri Lanka to carry out these tests.
- (c) As per the Scheme of Recruitment of the Sri Lanka Standards Institution the first efficiency bar examination should be completed before the permanent of 08 service categories, action had not been taken by the institution to conduct efficiency bar examinations.

According to the audit test check 38 employees recruited in 2013 and 2014 were confirmed in the service in the years 2016 and 2017 and although by 31 December of the year under review the service period is completed 03 years requirement of passing the Efficiency Bar Examinations had not been fulfilled.

(d) Payment of Incentive Allowance

Based on the fluctuations between the monthly cumulative actual incomes and the monthly accumulated target income and the attendance a sum of Rs. 25,024,326 had been paid to the staff of the Institute as incentive allowances. Following observations are made in this regard.

- (i) Methodology of calculating the target income of each division and strategy to achieve these goals had not been presented to audit.
- (ii) Though it is stated that the success of the sector in those areas in the previous year will be considered to set targets of each sector, in comparison to the last year's progress, low targets was set for 08 units out of 09 units of the institution in comparison to the last year's progress. Accordingly, the actual income of the institute in 2016 was Rs.747,488,328, the target income for the year under review was Rs.624,890,000.
- (iii) According to the Board Decision of 20 December 2017 it was stated that the institution's revenue has been increased as a result of this motivation payment, revenue generated from the year under review has decreased by Rs. 7,840,817 compared with the previous year.

4.3 Operating Activities

Following observations are made.

- (a) The Board decided on 27 March 2017 to dispose the fixed assets costing Rs.32,376,278 identified as non-usable assets in the year under review. Although it was stated that these assets were handed over to the Sri Lanka Army, the evidence of property receipt was not submitted to the audit.
- (b) Inspection carried out on 30 November 2017 regarding fuel bill books, it was observed an authorized officer had signed on 36 bills which was wrote only the date and the vehicle number and the amount and quantity columns were empty. It is further observed that the organization does not have adequate internal control over vehicle control.
- (c) A methodology to check chemicals from time to time and to dispose of after being expired was not available in the Institution and action had not been taken even by end of the year under review to dispose of 25 items of expired chemicals in the period from 1996 to 2015, existed in the Stores. Furthermore, the cost of 103 Glassware items of Rs. 670,626 and Cost of 454 chemical items of Rs.1,839,338 which were not issued more than 10 years had been idled in the stores at the end of the year under review.

4.4 Staff Administration

Following observations are made.

- (a) Although the approval to fill 15 vacancies in the Post of Assistant Director (Technical) post had been granted by the letter DMS / 1610 / VOL-1m dated 22 December 2016 of the Management Services Department, 19 had been recruited for that post on 01 November 2017. The evidence was not submitted to the audit that approval for additional recruitment was obtained.
- (b) Even though a written test should be conducted for selection in accordance with Section 5.4.1 of relevant recruitment procedure, contrary to that 06 officers for the post of Management Assistants (Non -technical) and 10 officers for Junior Managers (Technical) had been recruited during the year under review.

5. Sustainable Development

Every public institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030 and even with respect to the year under review, the Sri Lanka Standards Institution had been aware as to how to take measures relating to the activities under purview of their scope, no action had been taken to identify the goals, targets and milestones in achieving the targets relating thereto, as well as the indicators for evaluating the performance. Similarly, financial allocations, training employees or physical facilities to create an accurate database to assess the achievement of the targets were not identified.

6. Accountability and Good Governance

6.1 Procurement

Following observations are made.

- (a) According to 4.2.1 (c) of the Government Procurement Guidelines, the Institution had not prepared a detailed Procurement Plan, as the time frame for the procurement process had been set.
- (b) Out of 49 procurements amounting to Rs. 424.23 million planned to be carried out during the year under review 04 procurements amounting to Rs. 206 million had not been commenced even by 31 December of the year under review due to matters such as non-receiving requisitions of purchase applications from relevant sections, non-preparation of specifications and 11 procurements amounting to Rs. 29 million were in the bid invitation and bid evaluating stages. Since there are a large number of items in the Procurement Plan, it has not been reviewed and revised in a timely manner.
- (c) Even though in accordance with 6.3.3 (b) of the Public Procurement Guideline, bids should be open in the presence of the bidders or their agents as soon as possible after closing the bids, Bidding time and the invitation for attend the event had not been included in the bidding documents of 07 Bids amounting to Rs. 11,735,546 and it was observed that time had been spent from 6 days to 35 days for opening the bids from closing of bids.
- (d) Even though it should come to agreements with suppliers, when purchasing of goods exceeding Rs. 500,000 in terms of 8.9.1 (b) of the government Procurement Guidelines, in respect of 8 procurements of purchasing equipment worth Rs. 23,272,050 it had not entered into agreements.
- (e) An agreement had been made with a consultancy service firm for a sum of Rs.5,000,000 in the year 2017 for consultation on the introduction of integrated management information system. According to the National Procurement Agency Guidelines 2.6.3, the Advisory Procurement Committee should be appointed by the Chief Accounting Officer of the institute, the Procurement Committee for this Procurement was appointed by the Institute. Further, the notice for receipt of statements of intent and the request for proposal had not been prepared and obtained approval in accordance with the Guidelines 2.3.1 (c) and 2.3.1 (d) and it should be selected a suitable institution by obtaining and evaluating proposals from competitive institutions according to Guidelines 6.2.1, 7.1.1 (b), 8.8.2, instead of making such an arrangement, it was called for bids from only one institution and selected it.

6.2 Budgetary Control

Variations, ranging from 15 per cent to 407 per cent were observed between the budgeted and actual income and expenditure and thus the Budget had not been made use of as an effective instrument of management control.

7. **Systems and Control**

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.

Areas of Systems and Controls	Observations
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(a) Accounting	Not maintaining stock ledger properly.
(b) Stock Control	(i) Unable to obtain some information relating to stock from the present computer system. (ii) Not maintaining inventories in an updated manner. (iii) Stock control methods not been followed.
(c) Receivable and Payable Accounts.	Follow-up actions not done relating to recovery of receivable balances.
(d) Fixed Assets Control.	(i) Adequate informations not included in the Fixed Assets Register. (ii) Non-signature of authorized officer for changes in asset items in the Fixed Assets Register
(e) Vehicle Control	(i) Log books not maintained properly. (ii) Non-checking of fuel consumptions. (iii) Running charts mot maintained properly. (iv) Differences between fuel bills counterfoils and invoices.
(f) Staff Management	Personal files not maintained properly.
(g) Procurement	Procurement Guidelines not followed.
(h) Laboratory Control	Undue delay in testing and non-using of information management systems
(i) Information Technology System.	(i) Not preparing a policy for Information communication technology. (ii) Lack of sufficient security measurements on information technology system. (iii) Difficulties in obtaining certain informations. (iv) No interconnection between each systems (v) Certain sections of the system are not maintained in updated manner.
(j) File Control	(i) No file numbering (ii) There are Instances of issuing letters sent to outside parties without reference numbers.