

**Qualified Opinion**

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The audit of the financial statements of the Accreditation Board for Conformity Assessment for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Accreditation Board for Conformity Assessment as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

### **1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

### 1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the Relevant Standard	Comments of the Management	Recommendation
(a) The decrease of the provision for depreciations on motor vehicles and air-conditioners of the Board from 20 per cent to 12.5 per cent that should have been adjusted as estimate revisions according to	Decrease in the provision for depreciation from 20 per cent to 12.5 per cent has been retrospectively and correctly adjusted in the year 2017 in terms of Sri Lanka	Action should be taken in terms of Sri Lanka Public Sector Accounting Standards.

the Sri Lanka Public Sector Accounting Standard 03 had been retrospectively adjusted in the year 2017 and as such, value of non-current assets had been overstated by Rs.14,111,960. Action had not been taken to correct this error even in the current year.

### 1.5.3 Accounting Deficiencies

Item	Value as per the financial statements (Rs.)	Value as per the corresponding reports (Rs.)	Difference (Rs.)	Comments of the Management	Recommendation
According to the statement of financial performance as at 31 December 2017, the operating income of the Board stood at Rs.45226,997. Nevertheless, as per the Value Added Tax reports and the Nation Building Tax reports that income it stood at Rs.46,436,105 and Rs.43,875,305 respectively. The reasons attributed to that difference of the income were not explained to Audit.	45,226,997	46,436,105 (Operating income as per the Value Added Tax Reports)	1,208,108	According to the statement of financial performance as at 31 December 2017, the payment of Value Added Tax and Nation Building Tax pertaining to the whole year had been accurately made. Nevertheless, in forwarding quarterly reports to the Department of Inland Revenue, differences had occurred relating to the quarters. It is informed that the correctly revised reports will be promptly presented in place thereof.	Control Accounts and relevant schedules should be periodically reconciled.
	45,226,997	43,875,305 (Operating income as per the Nation Building Tax Reports)	(1,352,692)		

## 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a) Section (c) of Paragraph 8.3.3 of the Public Enterprises Circular No.PED/12 dated 20 June 2003.	Even though an office manual on the human resource management had been issued, approval of the Secretary to the Treasury had not been obtained thereon.	The manual on the human resource management has been forwarded to the Director General of the Public Enterprises Department for approval.	Action should be taken in accordance with the provisions in relevant circular.
(b) State Finance Circular No.5/2016 dated 31 March 2016	Having conducted the Board of Survey pertaining to the preceding year and referred the report to the Auditor General, the Director General of State Finance should be informed in that respect before 31 of the succeeding year. Nevertheless, the Board of Survey Report pertaining to the year 2018 had not been finalized even by 08 May 2019.	The shortage of staff resulted in that situation.	Action should be taken in accordance with the provisions in relevant circular.
(c) Paragraph 6.5.3 of the Public Enterprises Circular No.PED/12 dated 20 June 2003.	Even though the Annual Report of the Board should be table in Parliament within 150 days after the close of financial year, the Annual Report of the year 2017 had not been tabled in Parliament even by 10 May 2019.	Action will be taken to table the Annual Report 2017 in Parliament as expeditiously as possible.	Action should be taken in accordance with the provisions in relevant circular.

## 2. Financial Review

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### 2.1 Financial Results

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The operations of the Board for the year under review had resulted in a surplus of Rs.10,139,790 as compared with the corresponding surplus of Rs.1,686,862 for the preceding year, thus observing an improvement of the financial results by Rs.8,452,928. This improvement was mainly attributed to the increase in the income of the year 2018 by Rs.10,340,435.

### 2.2 Tendency Analysis of the Main Income and Expenditure Items

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As compared with the preceding year, the accreditation income and the training programme income had increased by Rs.7,566,430 and Rs.1,227,109 respectively in the current year and the expenditure on personal emoluments had increased by Rs.2,527,578. Expenditure incurred on travelling expenses had decreased by Rs.1,244,110 in the year under review as compared with the preceding year.

### 2.3 Ratio Analysis

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The current ratio and the quick ratio of the year 2018 was 4.09:1 and 4.89:1 respectively and that ratio stood at 4.89:1 and 7.76:1 in the year 2017.

## 3. Operating Review

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### 3.1 Operating Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
(a) The post of Additional Director remained vacant from the date of grating approval for the cadre. Even though arrangements had	Applications were called for relating to make recruitment for the post of Additional Director in the year 2012 and 2013. Nevertheless, a	Action should be taken to make recruitments to the vacant posts.

been made from the year 2012 to fill the above vacancy, recruitment had not been made to that post. Despite being received approval to make recruitment on the basis of extending the period of contract year by year as per the Letter of the Department of Management Services No.DMS/1601 dated 14 October 2014, necessary steps had not been taken thereon.

qualified applicant could not be selected. Even though approval was received to make recruitment on contract basis whilst revising the salary step as per the Letter of the Department of Management Services dated 14 October 2014, since most individuals who have qualifications in equal level serve in the post of similar level on permanent basis in the institutions, they are reluctant to make applications. Taking into account that situation, a request has been made to the Department of Management Services to convert the post of Additional Director again into a permanent position as it had been at the beginning. Nevertheless, no resolution has been reserved thus far.

- (b) A post of Junior Manager (Secretary), 01 post of Technical Officer (Information Technology) and 01 post of Driver had fallen vacant even by 02 May 2019. The Department of Management Services had granted the post of Junior Manager (Secretary) on contract basis and otherwise, it had been stated in writing that a post of Management Assistant could be granted on permanent Action should be taken to make recruitments to the vacant posts.



basis under the category of MA-1-2. Accordingly, a request was made on 23.11.2018 under the reference No.AD-LF-01/2018/11/001 for a post of MA-1-2 category on permanent basis. It is informed that action is being taken to get approval for a new post of Management Assistant. Only one applicant appeared for the post of Technical Officer and he subsequently informed his reluctance to accept the appointment.

- (c) The Board had not continuously taken action to create posts to make recruitments to the posts below the Executive Grade in order to employ in the accreditation assessment activities and as such, it had not been possible to promote the activities of the Board.
- For the post of Junior Manager (Information Technology), Junior Manager (Secretary) and the Post of Management Assistant below the Executive Grade, three officers had to be recruited at one officer for one vacancy in one post. Accordingly, steps were taken as indicated above. Since it had been agreed in writing to grant a Management Assistant post instead of the post of Junior Manager (Secretary) in the
- In order to ensure the going concern of the Board, a grade below the Executive Grade should be created and steps should be taken to make the relevant recruitments.

year 2016, a letter was sent seeking approval to make relevant recruitment based on the interview conducted recently. In response to the above letter, it had been informed that the post of Junior Manager Secretary (on contract basis ) could not be suspended and it would not be a fault to get the duty performed by a Management Assistant already in the service.

#### 4. Accountability and Good Governance

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##### 4.1 Annual Action Plan

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Audit Observation	Comments of the Management	Recommendation
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(a) Among the activities planned to be implemented to popularize the accreditation among the people, although four newspaper advertisements had to be published in the year 2018, not even a single advertisement had been published.	The Sri Lanka Accreditation Board has completed the survey on the clients in the year 2018 and analysis of its results as well has been completed by now. Even though a survey had been planned to identify the level of being aware of the	In planning, it should be analyzed whether the projects are practically implementable and then included in the plan. Action should be taken to complete the activities within

accreditation by the people the relevant year.  
in the year 2018, based on  
the following matters, a  
decision was reached that it  
would be appropriate to  
conduct the survey after a  
period of further two years.

(i) The accreditation is  
a process involved  
in technical matters  
and the general  
people have a least  
knowledge of this  
matter.

(ii) Therefore, it would  
be more effective to  
implement the  
awareness process  
first and  
subsequently  
conduct the survey  
in order to utilize the  
resources more  
efficiently for the  
survey.

(b) Even though the Board had planned to conduct 15 meetings during the year 2018 to implement the regulations of the regulators relevant to the Cabinet decisions, the Board had failed to conduct at least a single meeting during the year. In order to obtain active contribution to the Regulatory Institution Accreditation Process being implemented in the country, a workshop has been planned for all the regulatory institutions in the country during the year 2019. Action should be taken to implement the activities planned for the current year.

has been taken to obtain active contribution of the regulatory institutions for the World Accreditation Day National Programme in 2018.