

Sri Lanka Standards Institution - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Standards Institution 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 the fund 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 tabled in Parliament appear in this report.

In my opinion, except for the effects of 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 Institution as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

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 (SLAS). 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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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 Institution'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 intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Institution 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 Institution.

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

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 skepticism 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 Institution'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 Institution'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 Institute 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 Institution, and

whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institution has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Institution has performed according to its powers, functions and duties; and
- Whether the resources of the Institution 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 Non-compliances with Sri Lanka Accounting Standards

Audit Observation -----	Comment of the Management -----	Recommendation -----
a) In terms of Sri Lanka Accounting Standard 2, the stocks cost or the net realizable value, whichever is less, should be shown. However, no evaluation had been made on the carrying amount relating to the equipment and instruments worth Rs. 1,357,346.	Action will be taken in due course to show the value of equipment and instruments to the cost or net realizable value, whichever is less.	Action should be taken to show the value of stocks in the financial statements in terms of Sri Lanka Accounting Standards.
b) In terms of Sri Lanka Accounting Standard 39, the debtor balance should be shown to the amortized value thereof in the financial statements. However, action had not been taken to show the carrying amount by conducting an impairment test on 364 debtor balances totalling Rs. 32,909,431 continued to exist over 5 years as at 31 December of the year under review.	Impairment tests will be carried out in due course in order to show the debtor balances to their amortized value.	The financial statements should be prepared in consistent with Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation -----	Comment of the Management -----	Recommendation -----
a) Equipment relating to 04 advances of letters of credit valued at Rs. 28,559,722, had been received by the Institute during the period from November 2017 to December 2018. However, no action had been taken even up the date of audit in May 2019 to settle the balance of advances relating to the relevant letters of credit. Furthermore, due to failure in settling the letters of credit, the value of non-current assets amounting to Rs. 28,559,722 had not been shown under the Property, Plant and Equipment.	The equipment has been received. Action is being taken to issue the goods receipt notes.	Action should be taken by following the relevant accounting procedures to adjust the settled advances to the books. Proper coordination should be maintained among the divisions of the Institution.
b) As an income of Rs. 437,260 receivable from the training programs conducted by the Institution during the period 2016-2018, had been omitted from accounts, the excess had been overstated by that amount.	The debtor balance of Rs. 437,260 receivable as at 2018.12.31 had been pointed out in the internal audit report as at 2018.12.31. The training income as at 2018.12.31 had been understated by that amount.	The income should be accurately identified and adjusted to the accounts. An internal control system suitable therefor should be implemented.
c) The value of gratuity amounting to Rs. 15,001,262 relating to the employees to be retired in the year 2019, should have been shown under current liabilities in the year 2018, but it had not been so done.	The gratuity had been computed in accordance with the methodology approved under Sri Lanka Accounting Standard, 19. Furthermore, when computing the liability for gratuity, the value of gratuity payable to the employees retired prior to the scheduled date, had been adjusted. Action will be taken to rectify this deficiency through accurate ledger notes.	Action should be taken to prepare and present the financial statements in accordance with correct accounting policies.

1.6 Funds Receivable and Payable

1.6.1 Funds Receivable

Audit Observation -----	Comment of the Management -----	Recommendation -----
a) Five employees of the Institution had been attached to the Ministry of Power and Energy in the year 2014 and salaries had been paid. As such, the sum of Rs. 663,675 receivable to the Institution, had not been recovered so far. Debtor balances totalling Rs. 916,466 receivable from 04 public and private institutions since the year 2015, had not been recovered even by May 2019.	As the Ministry of Power and Energy was a Government entity, approval had been granted at the 3 rd session of the Board of Management held in 2019 to write off the receivable amount of Rs. 663,675 from the books.	Action should be taken to ensure speedy recovery of funds receivable to the Institution. In case the receivable balances are to be written off from the books, proper approval should be obtained thereon.
b) Monies had not been received even by May 2019 for 02 dishonoured cheques valued at Rs. 50,741 that had continued to exist over several years.	Legal action will be taken to recover the values of dishonoured cheques.	Action should be taken to recover the balances receivable to the Institution whilst taking into account the cost in that connection.

1.7 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations, etc. -----	Non-compliance -----	Comment of the Management -----	Recommendation -----
Financial Regulation 753 (2) of the Democratic Socialist Republic of Sri Lanka	When articles are received, a Receipt Order should be made out by the officer receiving the articles. The original should be forwarded	Not commented.	Once the articles are received, the receiving officer should prepare a receipt order.

to the officer who issued the articles whilst recording in the Receipt Order Book. However, instances were observed in which it had not been so done.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 137,192,310 as compared with the corresponding surplus of Rs. 125,931,329 for the preceding year. Accordingly, an improvement of Rs. 21,260,981 was observed in the financial result. This improvement had mainly been attributed by the increase in revenue by Rs. 32,411,476, and the decrease in maintenance cost and other operating expenses by sums of Rs. 4,590,447 and Rs. 26,509,176 respectively.

3. Operating Review

3.1 Operating Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
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a)	Contrary to the rates for the payment of incentives stated in the decisions of Board of Governance, dated 07 February 2011 and 21 February 2011, overpayments totalling Rs. 510,520 had been made in 04 instances in excess of the approved rates. The profit based on which those payments were made, had been computed in different ways.	Payments had been made in accordance with the decision of the Board of Governance	Consistency should be maintained with payments.

- b) The Institution lacks a proper methodology to periodically check the chemicals thereby disposing when expired. It was observed in audit test check that 31 items of chemicals costing Rs. 486,738 purchased during 1998-2007 had remained expired at the stores. Action had not been taken to dispose of those chemicals.
- A Committee has been appointed for the removal of non-moving chemicals. Upon being approved by the said Committee, some of the items have been despatched to Holcim Company for disposal. Other items are being listed.
- Disposal should be done promptly and in a timely manner.
- c) After selecting a consultant for the establishment of a consolidated Management Information System, the agreement had been entered into on 27 April 2017. It had been planned in accordance with the said agreement to complete the task within a period of 06 months under 04 stages. For the execution of activities under the first stage such as, evaluation of the existing system, proposing a new system, preparation of specifications therefor, and preparation of proposals, a sum of Rs. 1,816,103 had been paid during the year 2017. A sum of Rs. 150 million had been provisioned for the Sri Lanka Standards Institution through the budget of the year 2018 in order to establish the
- An Action Plan had initially been prepared for the said project and that plan had to be revised on several occasions. Furthermore, the project had been suspended for a period of one year by the **Board of Management**, and once it was approved to implement the project again, a new Action Plan was prepared. It is also informed that a qualified officer cannot be recruited since the Scheme of Recruitment of the Institution is being revised.
- Necessary steps should be taken by taking into account the requirement of a consolidated Management Information System.

said Information System, but the Institution had failed to properly utilize the said provision as the intended activity had not been executed.

- d) Controls relating to the laboratory instruments.
- (i.) There existed 3 instruments in the laboratory with an aggregated value of Rs. 6,456,670, but the Stores had provided issue notes for those instruments. Not commented. The stores should provide issue notes for the laboratory instrument procured, and entries should be made in the books of the stores as well.
- (ii.) The instrument, named Bench Top Hydraulic Pressure, valued at Rs. 978,183 had been shown in the balance sheet as at 2018.12.31 under the procurements made in the year under review. Nevertheless, it was observed that no entries had been made on that instrument in the stores registers or the Register of Fixed Assets. Not commented. Accurate costs should be entered in the accounts and the registers.
- (iii.) It was observed that no records were maintained on the instruments being taken away from laboratories on official purposes. Not commented. Goods Receipt Notes should be maintained for the purchases.
- (iv.) According to the financial statements of the year 2018, laboratory instruments valued at Rs. 832,521,212 had existed, but when those instruments were issued Not commented. A suitable methodology should be followed for the identification of items.

by the stores, they had not been coded for separate identification.

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| (v.) | A general methodology had not been introduced by the Institution ensuring proper maintenance of inventories at the stores and the laboratories relating to the laboratory instruments. | Not commented. | A general methodology should be implemented for the maintenance of inventoried items. |
| e) | A sample of 83 files had been requested from the Product Certification Division through the Letter, No. TEC/B/SLSI/INFO/19/01, dated 12 June 2019 for examining the grant of certificates of standard. Nevertheless, 47 files therefrom had not been made available for audit. | Not commented. | Officers should be apprised that information should be provided for the Audit in terms of Section 7 (1) (a) of the National Audit Act, No. 19 of 2018. |

3.2 Operating Inefficiencies

Audit Observation -----	Comment of the Management -----	Recommendation -----
a) The sample test on the renewal of license that had expired on 31 December 2017 relating to a food product of processed cereal, was conducted on 15 July 2018. According to the result, the product failed the test. However, it was informed that the license would not be renewed, in November 2018 after a delay of 11 months from the date of	As the relevant tests had to be carried out in foreign laboratories, a period of 02 months was taken. The results were presented before the License Committee on 2018.10.23 wherein the license was recommended to be cancelled. Having been recommended at the subsequent meeting of the License Committee that the said observation was correct, the relevant company was informed in that connection. It is further	It is necessary to be concerned with the responsibility of Sri Lanka Standards Institution for ensuring the quality of the products for the sake of people.

cancellation of the license. No documentary evidence was made available to the effect that the Consumer Protection Authority had been informed on the cancellation of the license.

informed that we apprise the Consumer Protection Authority only of the items requiring the SLS certification. Action will be taken in due course to apprise the Consumer Protection Authority in the same manner with respect to the items for which the SLS certification is not mandatory.

- b) Responding to the letter of cancelling the license, the relevant manufacturing institution had requested a period of 3 months to use the packages as a large number of packages with SLS emblem printed had been remained in the store. However, the Standards Institution had given approval stating that an application be submitted for a new license by rectifying the existing deficiencies. Nevertheless, even by the date of audit in May 2019, no documentary evidence was made available that an application had been presented for a new license by conducting sample tests again.
- The relevant company had presented a new application for obtaining a license again. Tests are being conducted with samples obtained.
- The Institution should take measures to protect the confidence of the consumers on SLS Certification.
- c) No evidence had been made available that sample tests had been carried out on the market in order to find out as to whether the product had been sold with SLS emblem during the
- Necessary action is being taken.
- The social responsibility of the Standards Institution to ensure quality products on the market from the point of view of the consumers, should be taken into consideration.

period of 17 months, since the date of cancelling the license for the relevant product up to 17 May 2019.

- d) The license granted to a brand of fruit juice for which the standard certificate was mandatory, remained valid from 2017/04/25 to 2018/04/24, but the relevant institution did not request to renew the license thereafter. There existed no evidence in the file that the Standards Institution too sent reminders or requests in that connection. The performance invoice was issued on 13 July 2018 on the license fee of Rs. 86,250 relating to the period from 25 April 2018 up to 24 April 2019. However, only a cheque valued at Rs. 40,000 was given by the relevant institution. After 11 November 2017, an institutional test was conducted after a period of 09 months on 14 August 2018, and no test was conducted after that date up to the date of audit. Although the samples collected on 14 August 2018 were sent to the Industrial Technology Institute on 29 August 2018 for testing, the file did not contain evidence that the
- The invoice relating to the amount receivable annually was sent to the manufactory. Responding to that invoice after a delay of 10 months, the owner of the manufactory made a payment of Rs. 40,000 on 2019.02.14. However, it was the norm to make the amount in full (Rs. 86,250), but the said amount was accepted considering the difficulties in paying the total amount stated by the owner of the manufactory. By 2018.08.14, the Standards Institution conducted an audit and a sample test relating to the relevant period (second year). The testing fees on the samples sent to ITI could not be paid due to delay in making annual payments. Furthermore, the owner of the manufactory informed the Standards Institution on 2019.06.17 that he would not intend to continue with his "SLS Certification" any more. As such, there existed no issue with the sample tests. Samples form the market are obtained once per three years only. As the license was cancelled prior to the third year, there existed no issues relating to collecting samples from the market. Action will be taken for the cancellation of this license at the meeting of the Committee for the approval of licenses scheduled to be held on 019.08.21
- The responsibility of the Standards Institution to ensure quality products for the people, should be taken into consideration while protecting the confidence of the consumers on SLS Certification.

results thereof were received even by the date of audit. The results of the tests conducted by the Standards Institution were not made available to the Audit as well.

Three main non-compliances were identified during the institutional test carried out on 11 November 2017 and 14 August 2018, but no documentary evidence existed in the file that remedial action was taken in that connection. No documentary evidence was observed in the file as to whether relevant products were on sale after expiration of the license and a sample test was conducted on the market from the year 2016 up to the date of audit.

3.3 Delays in the Projects or Capital Works

Audit Observation	Comment of the Management	Recommendation
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a) The sum of Rs. 168 million paid by the Sri Lanka Standards Institution in three instances to the Urban Development Authority for purchasing a land in extent of 03 acres in Halbarawatta, Malambe to construct a laboratory building, had been shown as an advance in the financial statements of the year 2018. In addition to that, approval of the Board	The physical ownership had been granted by the Urban Development Authority on 2016.08.24. The Urban Development Authority has further been informed in this connection as per the audit query.	Action should be taken promptly to take over the ownership of the land.

of Governance had been granted on 28 May 2015 to incur a sum of Rs. 1,165,333 for erecting a fence around the said land. Although the entire payment had been made in full in the year 2018, the ownership of the land could not be transferred to the Institution even by the year 2019.

- b) It was planned to prepare plans for constructing the laboratory at an estimated expenditure of Rs. 150 million thereby selecting the contractor and awarding the contract in the year 2018, but the intended works had not been executed during the year.
- Activities such as, publishing procurement notices for selecting a supplier, shortlisting the bidders by the Technical Evaluation Committee, and preparation of reports for obtaining approval of the Cabinet approved Procurement Committee, had been done in the year 2018. Further action is being taken in the year 2019.
- The budgeted provision should be optimally utilized within the year for the achievement of intended objective.
- c) Three equipment valued at Rs. 24,606,420 had been purchased on 12 November 2017 in order to install a Gas Chromatograph Mass Spectrophotometer GC/MS-MS. However, the said equipment remained unused even by the date of audit in May 2019. Furthermore, a laboratory suitable for the installation of that system had not been prepared up to May 2019, and the required training had not been provided for the staff.
- The said system had been purchased for establishing a laboratory to test traces of pesticides in food items. However, the system had been purchased though, it could not be made use of until the accessories required are provided by the supplier. As hazardous chemicals are used in the laboratory, protection of both the staff and the visitors, as well as the environment, should be taken into consideration, the establishment of the laboratory had to be delayed.
- A feasibility study should be carried out prior to purchasing the equipment. The officers responsible should take measures to implement the projects on the scheduled dates.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Management	Recommendation
<p>a) Provision amounting to Rs. 275.8 million had been made for the execution of 11 works stated in the Action Plan for the year 2018. But, the progress relating to the utilization of that provision, had not been shown under financial progress in the Action Plan. Moreover, values had not been shown under each of the sub-activity.</p>	<p>Financial progress is shown in the quarterly performance report. Action will be taken in due course to show the progress of sub-activities together with financial values.</p>	<p>The Action Plan should be prepared realistically and accurately by including the necessary information.</p>
<p>b) Thirteen of the 44 sub-activities under the main activities had not been executed whilst 07 activities had failed to meet the expected targets.</p>	<p>Reasons will be given in due course.</p>	<p>The Action Plan should be prepared realistically and accurately by including the necessary information. The Management should take necessary measures to achieve the targets planned.</p>
<p>c) As for obtaining accreditation for the laboratories with the objective of maintaining quality standards of the tests, the activities such as, 02 development activities on laboratories, 03 enhancements in the scope of accreditation, introducing 03 new test areas, and broadening the scopes of calibration & accreditation, had been planned for the year under review. Nevertheless, those activities had not been carried out.</p>	<p>Development of new features had not taken place in the laboratories during the year 2018. However, the development activities are in progress for the year 2019. New accreditations are being developed, and it is expected to achieve the goals by September 2019.</p>	<p>The programs for the improvement of services provided by the Institution should be implemented as planned.</p>