

Measurement Units, Standards and Services Fund – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Measurement Units, Standards and Services Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, 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(3) 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 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Fund 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 (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

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 Fund’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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Fund 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.

1.4 Audit Scope (Auditor's Responsibility in Auditing 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 Fund'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 Fund'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 Fund 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund 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. The audit observations with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under these headings.

1.5.2 Accounting Deficiencies

Audit Observations	Comments Given by the Management	Recommendation
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(a) As a result of incorrect additions amounted to Rs. 136,789,178 made in the cash flow through Financial Activities of the Cash Flow Statement, although the cash and cash equivalents valued at Rs. 196,058,529 that had been shown as Rs. 219,058,529 in the Cash Flow Statement.	This difference had arisen because of the Special Deposit relating to Financial Activities of cash flow statement amounted to Rs. 23,000,000 was not included in to the total of the cash flow generated by Financial Activities.	The total of the Financial Activities of the Cash Flow Statement should be corrected as Rs. 159,789,178.
(b) As a result of the depreciation was not calculated based on accurate opening balances for machinery and office	Journal entries were passed for a value of Rs. 16,798,014 to correct this mistake.	The accurate depreciation amount relating to the year should be shown in the financial statements.

equipment, the annual depreciation value had been overstated by Rs. 16,798,014 .

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| <p>(c) The depreciation for purchased machinery and office equipment amounted to Rs. 4,364,726 and Rs. 327,597 respectively had not been taken in to accounts..</p> | <p>Journal entries were passed to reduce the Cumulative Fund by a sum of Rs .905,705.</p> | <p>The accurate depreciation amount relating to the year should be shown in the financial statements.</p> |
| <p>(d) The Value Added Tax incurred whilst purchase of fixed assets amounted to Rs. 1,468,590 had been stated under Investment Activities instead of shown under Operational Activities in the Cash Flow Statement.</p> | <p>Notes were taken in to present information in the Cash Flow Statement under the accurate classification.</p> | <p>The Value Added Tax amounted to Rs. 1,468,590 should be stated under the Operational Activities in the Cash Flow Statement.</p> |
| <p>(e) Fixed Deposit Interest amounted to Rs. 1,036,500 had been understated in the financial statements.</p> | <p>The statement consisting the total interest for a sum of Rs.20,000,000 deposited in the National Savings Bank for the year 2018 had received on 11 March 2019 and accordingly, the total interest for the year amounting to Rs.2,010,250. Accordingly, actions will be taken to pass journal entries for a sum of Rs. 1,036,500 in addition to the amount of Rs. 973,750 that had accounted for.</p> | <p>The Fixed Deposit Interest amounted to Rs. 1,036,500 should be shown in the Financial Statements.</p> |
| <p>(f) The Value Added Tax amounted to Rs. 1,131,765 had been shown under other receipts of Cash Flow Statement without showing separately.</p> | <p>Actions will be taken to present under accurate classification.</p> | <p>The Value Added Tax amounted to Rs. 1,131,765 should be stated separately in the Cash Flow Statement.</p> |

1.5.3 Lack of Evidence for Audit

Subject	Amount	Audit Evidence not Presented	Comments Given by the Management	Recommendation
	Rs.			
Cash and cash equivalents	196,058,529	Bank Reconciliation Statements	Actions would be taken to submit immediately.	Bank Reconciliation Statements those required to verify the balance of cash and cash equivalents amounted to Rs. 196,058,529 should be submitted to audit.

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

Reference to Laws, Rules & Regulations etc.	Non-compliance	Comments Given by the Management	Recommendation
Section 20 (1) (a) and 37 of the Measurement Units, Standards and Services Act, No. 35 of 1995	Although all measurement equipment used in trade must be verified annually, there were no proper mechanism established in the Fund to ensure that all instruments were verified.	Emergency raids are carrying out by the limited officers occupied in the Department conducting Verification Centers by giving wide publicity through Grama Niladharis. Legal actions expected to be taken throughout the island wide raids identifying the instances those were not being so verified.	A proper mechanism should be established within the Fund for verifying all measuring instruments used in trade annually.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 117,075,484 and the corresponding surplus in the preceding year amounted to Rs. 129,971,134. Therefore, a deterioration amounting to Rs. 12,895,650 of the financial result was observed. The increase in depreciation of property, plant and equipment, maintenance costs, human resources development and training and supply costs in the year under review had mainly attributed to this deterioration as compared to the preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments Given by the Management	Recommendation
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(a) Although the details of units verified by the District Officials and the charges relating to them are being reported to the Fund by those officials, the Fund did not have a database or proper procedures to verify their accuracy.	The Revenue Reports on fees charged for the verification are sent to the Department monthly through the Officer In Charge of the Divisions of Weight and Measurement and are checked and taken in to accounts by the Accounts Division of the Department. It is checked whether the money earned is properly banked whilst preparation of bank reconciliations.	A database system or proper procedures should be established to be able to verify the accuracy of the units verified and the charges levied by the District Officers relating to that.
(b) Since the failure to properly update the Register of Fixed Asset since the date of purchase of each asset could not be determined, the depreciation value up to the year under review was impossible to recognize.	Agree.	The Register of Fixed Asset should be updated accurately.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation -----	Comments Given by the Management -----	Recommendation -----
Since an Internal Auditor had not been appointed for the Department, the activities of the Fund had not been carried out by the internal audit.	Once an officer of the Sri Lanka Accounting Service is appointed to the post of Internal Auditor of the Department, it is informed that the actions would be taken to appoint an Audit and Management Committee and held meetings in future as scheduled.	An Internal Auditor should be appointed for the Department and the activities of the Fund should be audited.