

## **Sri Lanka Standards Institution - 2020 .**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Standards Institution for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, 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 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 2020, 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**

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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 (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**

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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 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)

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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 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 Comments on Financial Statements

### 1.5.1 Non-compliances with Sri Lanka Accounting Standards

Non-compliances with reference to the relevant standard	Comment of the Management	Recommendation
<p>a) 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 for 364 debtor balances totalling Rs. 32,909,431 continued to exist over 5 years.</p>	<p>Those who have been in debtor for a long time will be recovery of debtors is being carried out through legal action. Recovery of debtors is being carried out and due to non-receiving of relevant evidence properly. Impairment tests had not been carried out in the year 2020. However, if the recovery of debtors process failed. Steps will be taken in accordance with Sri Lanka Accounting Standards 36 in the accounts of the year 2021. At the management meetings held all the directors were informed to take necessary action to recover the debtors.</p>	<p>Proper action should be taken to recover the debtor balances and should be keep all records of debtors.</p>

- (b) In terms of, OB 17 of the structural frame issued by the Institute of Chartered Accountants of Sri Lanka, the effect take place to the economic resources through the transactions and incidents arisen in some accounting entity should be identified in the time period which the relevant effect occurred but not in the time period which the financial receipts and payments occurred. However, fees income amounted to Rs. 12,294,325 received in the year under review for the years 2018 and 2019 relating to the duties of the Sri Lanka Standards institute had been brought to account as the income in the year under review. Receipts for receipts which could not be ascertained from the sources of income for the year under review due to failure to identify the period for which the income was applicable were also recorded as income for the year under review and the value was Rs. 10,402,897.
- (c) Accordance with section 32 of Sri Lanka Accounting Standard No. 01, income and expenditure are not set off each other. But the transportation revenue which was Rs. 10,254,941 which was the
- Proper Management System for the identification of the annual fees payable by the clients for the relevant year has not been established. Therefore, this annual fees received in 2020 has been identified as an income received in the year under review. In this regard, the policy of the institution is to identified as an income received in the year due to the lack of reliable measurements of receipts. Please note this amount has not been identified as an income for the annual account in the years 2018 and 2019 as well.
- Combined The information system should be kept up to date and entered the accurate information. So that, revenue and expenditure can be accurately identified in accordance with Accounting Standards.
- Steps will be taken to correct in accordance with Sri Lanka Accounting Standard 01 in the accounts of the year 2021.
- Action should be taken in accordance with the Accounting Standards.

transportation cost for going to and from the relevant place for the institution inspection was deducted from the transportation expenses.

### 1.5.2 Accounting Policies

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Audit Observation	Comment of the Management	Recommendation
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a) According to the Sri Lanka Accounting Standards No. 02 stocks should be shown to the lower value out of values of cost and net realized value. However, the stock of the Institution of Rs. 1,499,749 as on 31 December 2020 had been submitted taking into account only the cost value of the Financial Statements. Also, physical survey had not been carried out for the year 2020 for the equipment and tools to be taken under stock.	This issue had been discussed at the recent audit and management meeting and it was decided to show to the lower value out of the value of cost and net realized value of the equipment and tools. Therefore, this will be implemented in future stock survey.	According to the Accounting Standards, action should be taken to show to the lower value out of the values of cost and net realized value.

### 1.5.3 Accounting Deficiencies

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Audit Observation	Comment of the Management	Recommendation
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a) The balance of the year under review in the dishonoured cheques amount of the institute is Rs. 198,982. That balance did not suite the balance of trade debtors at the end of the year. As a result, the total debtor balance was reduced by Rs. 198,982.	Action will be taken to correct this error in the accounts for the year 2021.	Should be recorded in the accounts accurately.
b) 10 items of accrued expenses amounting Rs. 401,750 were not accounted as at 31	Invoices for transactions of Rs. 401,749.69 were received in February 2021. There was	All transactions for the year should be recorded in the accounts accurately.

December 2020. Therefore, a delay in the follow up of the total surplus of the institute had overstated by that amount. due payments mainly due to lack of staff. However, actions are being taken to minimize these delays and omissions.

- c) Actions had been taken to Rs. 154,961 received for the years 2019 and 2020 had been considered as an income for the year 2021 and received for coming year Rs. 37,534 had been considered as revenue for the year under review. Not commented for the audit query. Transactions for the year should be identify accurately and prepared Financial Statements.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Funds Receivable

	<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
a)	Cheques received from debtors and deposited in the bank amounting to Rs.198,982 were returned. Out of the total sum of Rs. 50,741 had not been settled over a period of 5 years.	A value of Rs. 146,241 has been recovered from the returned cheque value. The remaining value of returned cheques will have been recovered through legal action.	Action should be taken to recover the loan balances.
b)	There were 5 other debtor balances with a total value of Rs. 1,343,053. The Institution had not taken any action to recover the debtor balances of Rs. 916,466 for more than 3 years.	Steps will be taken to recover the debtor value through legal action.	Action should be taken to recover the loan balance.

## 1.6.2 Funds Payable

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
a) The amount of retention money for 5 contracts for the period of 2015-2018 was Rs. 777,008 not released till end of the year under review.	Retention will be released on relevant suppliers' requirements. Retentions had been released on all request made by suppliers for their retentions.	Action should be taken to settle the balances.
b) The Institution had not paid attention to settle the amount of Rs. 49,747,361 in the nation Building tax payable account due from 2018.	A request has been made from the Inland Revenue Department to settle the Nation Building tax payable amount of Rs. 49,747,361 based on the observations received from the Department of public Enterprises and Auditor Generals department.	Action should be taken to settle the balances.

## 1.6.3 Advances

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
a) The total value given to 7 private institutes was the advance of Rs. 2,641,214 had not been settled till 30 September 2021.	An amount of Rs. 151,800 out of these advances has been informed to be charged from the relevant directors. Rs. 100,000 has been paid to a Galle face Hotel for a function at the request of the Director (Standards). The Director has been informed by the Galle Face hotel that there is a possibility of transferring to another event instead of paying back.	Action should be taken to settle the advances as immediate as completion of the work.

## 1.7 Cash Management

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
At the end of each month the balance according to the cash book has been calculated by the cheques deposited but not realized, the cheques issued but not presented and the adjusted value had been matched to the balance according to the bank statement. Detailed information on the value of the adjusted value had not submitted to the audit. The balance of adjusted value in December 2020 was Rs. 11,537,762. This adjustment value was observed every month in the year 2020.	Non-recognized amount of Rs. 11,537,762 has been mentioned in the bank statement for the month of December 2020. These are cash and cheques deposited directly by the clients into the Sri Lanka Standards institution bank accounts for obtaining services of the various divisions of Sri Lanka Standards institution.	All transactions should be considered when preparing bank reconciliation statements.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 55,669,799 as compared with the corresponding surplus of Rs. 113,952,527 for the preceding year. Accordingly, a deterioration of Rs. 58,282,728 was observed in the financial result. This deterioration had mainly been attributed by the decrease in operating expenses, operating revenue and financial revenue by sums of Rs. 85,332,211, Rs.128,353,122 and Rs. 15,261,816 respectively.

## 3. Operating Review

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
a) The agreement has been signed on 27 April 2017 with the selection of a	The action plan originally prepared for this project had been revised several times. The governing	Appropriate actions should be taken to establish consolidated



consultant to establish the Consolidated Management Information System. According to the agreement, the work was scheduled to be completed the 6 months in 4 stages. The total invoice value of Rs. 1,816,103 which presented during the year has been paid in July 2017 for evaluate the existing system, propose a suitable new system, formulate the required specifications formulate proposals etc. activity in first stage.

council had suspended the project for a year and prepared a new action plan after granting permission to restart. I would like to inform you that as the recruitment procedure of the institution is being revised it has not been possible to recruit and qualified officer to perform the procurement duties.

management information system.

According to the agreement 50% of the amount will be paid at the beginning of the stage for selecting a suitable institute or institutes to purchase the software and hardware for the second stage. Accordingly, invoice of Rs. 538,363 including VAT has been submitted on 31 March 2018. According to the agreement, functions of the second stage were to be completed within 2 months but the work had not been completed until 31 October 2021.

- b) During the audit it was observed that the institution does not have a stock reporting system which is easily available the relevant detailed information of the stock (item, unit price, quantity)
- Not commented on the relevant audit query.
- An internal control system should be applied to stocks.

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| c) | The institution did not maintain a stock control ledger account. | Not commented on the relevant audit query. | An internal control system should be applied to stocks. |
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### 3.2 Operating Inefficiencies

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Audit Observation	Comment of the Management	Recommendation
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a) From August 2019 to October 2020, porcelain equipment has been imported in 270 times. Completion of the quality testing procedure a sample had been selected imported which 152 times with a net weight of 1,566,258.40 and a value of US\$ 849,623.74. It was observed that only 75% of the samples underwent heavy metal testing. According to the Sri Lanka Standards 1222: part 1:2001, there are 16 tests to ensure compliance with porcelain equipment standards. But, of those tests, only the lead cadmium content test was performed. Although 16 tests were recommended to ensure quality by standards, determining the quality of imported porcelain equipment based on one test was problematic during the audit.	The inspection of porcelain and ceramic products is carried out in accordance with the Gazette Notification No. 1/21/4 dated 29.02.2020. Accordingly, only lead and cadmium testing is mandatory. According to the above Gazette Notification, porcelain and ceramic products will not be released to the importer's warehouse without due tests. There are no standards for ceramic products. Also, ceramic products cannot be tested by the relevant parameters of porcelain products.	The objective of the Standard Institution is to provide the public with the opportunity to consume quality products. Therefore, the background and the necessary standards need to be developed to carry out the required tests.
b) Import inspection under SLSI / 19 / 27984 has marking that the 26025 equipment of porcelain sets at value of the US\$ 1255.3 has confirmed to not compliant with the SLS 1222 : part 1 : 2001 standard. But it was	When the inspection detects a failure the importer is notified to correct it. If the importer does not respond to the reminder the stock will be approved by the director with a warning.	Action should be taken to stop the release of substandard goods to the market.

observed that the consignment was permitted to be sold or used.

- c) According to the action plan, Market goods are inspected every year and those reports are taken into consideration in issuing when the SLS certificate. However, market inspections give priority only to products with consumer complaints and fail test reports. Challenges and resources available of the division has been affected to this situation. Market inspections should be carried out adequately to minimize the risk of substandard and non-compliant consignment being sold in the market.
- d) A sample audit was conducted on the test reports issued in each of the laboratories established by the institute. In 2019, 100 laboratory test reports on food, 184 electrical test reports, 256 test reports of chemicals, 218 microbiological test reports and 81 test reports on the quality of raw materials used in production were selected for sample of 839 laboratory reports in terms of section 3.14(1) of PR-H-3, but 481 instances of delays were observed. In addition, samples have been taken but the 359 times tests were delayed, although samples have been taken there were 130 delayed in assigning tasks to begin testing, although tests have been completed there were 169
- Always work to minimize the time taken for internal process and other processed obtaining in the laboratory. However, there are several reasons for the delay. Such as, giving the priority to the inspection of stocks and related samples kept in the port during the inspection of imported goods, high cost of some equipment and chemicals. In order to minimize the time required for a large number of parameters for testing the identifies items were tested after adding a specific sample quantity without having to test them separately, Senior Deputy Director in charge of the microbiology laboratory unit retirement and the acting officer taking maternity leave, test reports should need to be corrected or re-checked when errors exist, having a large number of vacancies in the inspection staff from the last 2-3
- Appropriate actions should be taken to provide expeditiously test reports.

delays in preparing reports, although test reports have been prepared there have been 72 delays in certification by the chief officer of the laboratory and there have been 48 delays between the assignment date and the test start date.

years, failure to obtain the approval of the Department of Management Services for the recruitment, although the number of samples received by the laboratory sector during the year has gradually increased the staff has not increase accordingly etc.

Services are provided to meet the increasing demand for goods inspection even under the limited resources and lack of facilities available. Although the increase in staff and the need for new technological equipment are required for this purpose the existing laboratory square feet are not sufficient. Due to this, proposal has been submitted for a new laboratory with modern facilities.

### 3.3 Delays in Projects or Capital Work

Audit Observation	Comment of the Management	Recommendation
<p>The Sri Lanka Standards Institution had purchased 03 acres of land in the Halbarawaththa, Malabe area for the construction of a laboratory building. For this the Urban Development Authority has been paid in 3 times Rs. 168 Million has been paid. This has been noted in the Financial Statements as an advance paid. Although had been paid for the land in full in 2018 the ownership of the property had not yet been acquired by 31 October 2021.</p>	<p>Physical ownership has been granted by the Urban Development Authority on 24.08.2016. Further, the Urban Development authority has been informed to obtain the ownership as per the audit query.</p>	<p>Actions should be taken to take over the ownership of the property and construction of the relevant building as soon as possible.</p>

### 3.4 Human Resource Management

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
a) The approved carder of the Institution has been 393 and as on 30 June 2021. There were 106 vacancies. It has been 27 per cent. 50 per cent out of these vacancies were related to executive level.	The recruitment procedure of the institute is being revised and recruitment can be done as soon as it is completed.	Recruitment should be done and efficient services should be maintained.
b) The recruitment process to the post of Director General of the Sri Lanka Standards Institution requires 20 year of executive grade experience with a Bachelor of Business Administration or a Doctorate in Agriculture or Science. Also, 12 years of Top Management experience after the Doctorate is required. However, an officer who did not present sufficient evidence of having fulfilled the required qualifications had been appointed to the post of Director General.	Letter of appointment will not be issued for voluntary services. Furthermore, there is no clear definition of Senior management Experience or Academic and research experience. There are 5 years of Bachelor of Philosophy and 21 years of experience with 3 years of volunteer experience in another institute. The decision of the interview board is final decision. So, the institution cannot comment on these decisions.	All recruitments should be accordance with the relevant procedure. Also, in case of any unclear in qualifications and experience the relevant parties should be informed and action should be taken to resolve these issues.