

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Standards Institution (“Institution”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 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 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 institute as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 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 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 Institution 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with the Reference to Particular Standard	Management Comment	Recommendation
(a)	According to Sri Lanka Accounting Standard No. 02, although the inventory should be valued at the lower of cost and net realizable value, as at 31 December 2023, the inventory had been recorded in the financial statements at a cost of Rs. 12,544,291 without assessing the net realizable value.	As at 31 December 2023, the stock is reported in the final accounts based on the cost, and it has been noted that no evaluation has been carried out based on the net realizable value so far, and actions will be taken in the future to report a lower value.	According to Sri Lanka Accounting Standard No. 02, inventory should be reported in the financial statements.
(b)	According to Sri Lanka Accounting Standard No. 39, although the debtor balances should be reported in the financial statements at their amortized value, as at 31 December the year under review, an impairment test had not been conducted for debtor balances amounting to Rs. 19,840,442, which have been outstanding for over 9 years and only Rs. 198,400 had been allocated as a provision for doubtful debts within this period.	Before conducting an impairment test of debtors, any debtors that can be written off should be removed from the books. For this purpose, all information regarding overdue debtors, including an aging analysis, has been submitted to the treasury representative for guidance.	According to Sri Lanka Accounting Standard No. 39, an impairment test should be conducted for debtors that have been outstanding for a long period of time, and they should be reflected at their amortized value. Consequently,

further steps should be taken to recover debtors that can still be collected.

1.5.2 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	As at the end of the year under review, according to the bank reconciliation statement, an amount of Rs. 9,923,267 in unidentified deposits accumulated over a period of 1 to 4 years had not been identified and accounted.	Actions have been taken regarding the identifiable deposits for the years 2020 and 2021, and there are still unidentified deposits remaining. Approximately one million has been identified and addressed for 2022 and 2023, and actions are ongoing to identify the remaining deposits.	A suitable and systematic procedure should be introduced to identify all income and other receipts received into the institution's bank account, thereby it should be accurately identifying the annual income.
(b)	As at 31 December 2023, although the balance of the institution's dollar account was USD 61,547 (Rs.19,643,956), the balance which was shown in the bank statement in the financial statements on that date was USD 58,044 (Rs. 18,525,779), as a result, the dollar account balance and the exchange gain had been understated by Rs. 1,118,413.	The amount of USD 58,044 in the bank as at 31 December 2023 has been presented in the financial statements based on the exchange rate on that date.	The ledger accounts and bank statements should be reconciled, and the correct balance should be adjusted in the financial statements according to the reconciliation.
(c)	Expenses amounting to Rs. 1,729,166 paid in 2024 for the year 2023 had not been adjusted in the financial statements.	In the future, these payments will be made on time and actions will be taken to prevent such omissions.	Internal controls should be applied to ensure that all expenses related to the year can be accounted.
(d)	Income amounting to Rs. 14,226,329 received in 2023, related to the years 2022 and 2024, which had been adjusted in the financial performance statement of the year under review without adjusting the relevant accounts.	Adjustments for the last 6 months of the year have been completed, and the adjustments for 2024 and the first 6 months of 2023 will be carried out in 2024.	Strong internal controls should be applied to identify and account for all revenues related to the year.

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

	Reference to Laws, Rules, Regulations, etc.	Non-compliance	Management Comment	Recommendation
(a)	Amended Financial Regulation 756(6) by Public Finance Circular No. 01/2020 dated 28 August 2020	The Board of Survey related to the year 2023 had not been completed and reports had not been submitted.	Board of Survey activities are being carried out.	The tasks prescribed within the stipulated time as per the circular provisions should be carried out.
(b)	Regulation 780 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and Section 4.1 of the State Enterprise Circular No. 1/2015 dated 25 May 2015.	Without considering the importance of frugality and efficiency in the execution of government work and services, a sum of Rs. 5,021,100 had been paid to private parties on 12 occasions in May and June 2023 for providing transportation facilities to mid-level officers, contrary to the special approval obtained from the State Enterprise Department.	Due to the obsolescence of the existing vehicles in the institution, the urgent duties of the institute and the necessity to maintain uninterrupted service operations, the contract period that was allowed to obtain vehicles from external sources had to be extended.	Actions should be taken in accordance with the provisions of the circular and the relevant approvals.
(c)	Article 172 under Chapter XII (Release of a Government Officer) of the Procedural Rules of the Public Service Commission, published in the Extraordinary Gazette No.	Three officers who were on probation period had been recruited to the institution on a secondary basis.	Due to the significant vacancies in the approved staff of the institution and the service requirements, three officers were appointed from the line ministry and among them, two were temporarily assigned to the position of	Employees on probation period should not be recruited on a secondary basis. Consequently, when assigning duties, the capabilities and qualifications of the institution's permanent employees should also be

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2022.

administrative considered.
officer, and one
was temporarily
assigned to the
position of assistant
director.

1.7 Information Technology (IT) General Control Systems

Audit Observation	Management Comment	Recommendation
The errors in the computer software system, which had been effective since September 2022 at a cost of Rs. 2,800,000, have not been corrected as at 30 July 2024.	This software is still in the testing stage.	Appropriate steps should be taken to promptly rectify the computer software system in consultation with the relevant institution.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 429,013,188, and the corresponding profit in the preceding year amounted to Rs. 176,704,353. Therefore, an improvement amounting to Rs. 252,308,835 of the financial result was observed. Although the total operational expenses and the amount paid to the treasury increased by Rs.93,060,363 and Rs. 43,011,306 respectively, the main reasons for this growth were the increases in operational income and net capital income by Rs. 321,238,429 and Rs.73,851,858 respectively.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) As at the audit date of 15 July 2024, the necessary actions had not been taken to dispose 147 items of equipment identified as obsolete in 05 laboratories of the institution.	Since these items are over 20 years old, it was not possible to submit information such as the year of purchase and the cost and these items are scheduled to be removed in the future.	Steps should be taken to dispose unused materials and report them accurately.
(b) When issuing licenses for the use of the SLS logo, it is essential to ensure that the quality system operates	Under the SLS certification system, product compliance and	To ensure the quality of the product, continuous market

satisfactorily to confirm that the product complies with the relevant standard and to verify compliance with the license conditions, samples of the product should be obtained from the open market and tested for conformity with the specifications. However, as at 31 December 2023, although 924 products had obtained the standard certification logo, market survey had been conducted for only 183 types of products, which is approximately 20 per cent.

process compliance are continuously monitored and this includes regular post-market audits within the factories and it was being randomly sampled from the market and tested to ensure the continued the quality of the production.

sampling should be conducted to test the compliance of the products with the standards.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Using the standard No. 896:2020 revised by the Sri Lanka Standards Institution in 2020, inspection of imported red lentils was conducted and due to the lack of facilities to perform the colour additive test (AOAC 988.13 & HPLC) required under the physical requirements specified in section 6.2 of the standard, the colour test had not been conducted.	It was informed that discussions were held regarding this matter and that the standard would be revised to include a testing method that can be followed by the laboratory.	The provision of necessary facilities for conducting specific examinations in compliance with regulations should be carried out promptly.
(b) Four local institutions producing brown sugar in Sri Lanka had been observed during the audit and none of the producers had taken steps to obtain standard certificates.	Since the regulatory authority that mandates the SLS mark is the Consumer Affairs Authority, these institutions have been informed to apply for the SLS mark.	Continuous information exchange with the Consumer Affairs Authority should be carried out to inform institutions that have not yet obtained the mandatory Sri Lanka Standards certification.
(c) According to the information from the Consumer Affairs Authority, canned fish is released to the market under 28 brand names, but only 15 of these have obtained the SLS certification. Therefore, the SLS certification had not been obtained	The Standards Institution has issued SLS certificates for 48 canned fish brand names from 15 manufacturers. Several manufacturers have been issued more than one	When proper and continuous regulation of products with mandatory and voluntary SLS certification is required, and actions

for 13 canned fish brands.	license for different brand names.	should be taken promptly and continuously in coordination with the responsible institutions.
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3.3 Idle or Underutilized Property, Plant and Equipment

Audit observation	Management Comment	Recommendation
(a) Although shower and eye wash equipment was purchased for Rs. 495,000 on 06 August 2019, for the Food Laboratory (Food Lab) to be used by laboratory officers during emergencies, it had not been installed in a usable manner as of the audit date, 17 November 2023.	Due to limited space and incomplete water supply, this has not been installed.	As a safety mechanism, the relevant equipment should be used for the intended tasks to fully meet the needs of the laboratory workers.
(b) The 86 Arctiko Freezer (S/No – ULVF 651096008), which had been received to the institution on 31 December 2021, through the Unido grant for the Microbiology Lab, valued at Rs. 1,748,663, had been inactive since March 2022.	This equipment has currently been sent to a private institution for repairs.	The equipment should be repaired and utilized in a way that maximizes economic benefits.

3.4 Procurement Management

Audit Observation	Management Comment	Recommendation
When purchasing equipment worth Rs. 21,860,934 for the laboratories of the Sri Lanka Standards Institution, the procurement guidelines stated in sections 3.1, 5.19, and 5.20 had not been followed.	Steps will be taken to prevent such incidents from occurring again.	Actions should be taken in accordance with the procurement guidelines.

4. Accountability and Good Governance
4.1 Tabling of Annual Report in Parliament

Audit Observation	Management Comment	Recommendation
According to the operations manual for government-owned enterprises introduced by the State Enterprises Circular No. 01/2021 dated 16 November 2021, the annual report should be tabled in the Parliament within 150 days of the end of the financial year and this had not been done for the annual report for the year 2022.	It has been handed over to the Ministry.	According to the circular provisions, the annual report must be tabled in the Parliament within 150 days of the end of the financial year.