

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 2024 comprising the statement of financial position as at 31 December 2024 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 Institution as at 31 December 2024, 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 intend 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 Financial Standards

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) In accordance with paragraph 54(c) of Sri Lanka Accounting Standard No. 01, computer software systems with a net value of Rs. 7,514,608 as at 31 December of the year under review were classified under property, plant, and equipment, instead of being accounted for as intangible assets.	The action will be taken to rectify.	Assets should be accounted for in compliance with Sri Lanka Accounting Standards.
(b) According to paragraph 88 of Sri Lanka Accounting Standards No. 01, all income and expenses for a financial period should be included in the financial results of that year. However, since the total telephone, transportation, and other expenses of	The action will be taken to rectify.	When preparing financial statements, all income and expenses should be included in the financial results in accordance with Sri Lanka Accounting Standards.

Rs.7,406,651 for the year under review were not accounted for as expenses of the year, therefore the profit was overstated and the liabilities were understated by the same amount. Since the training course income of Rs.729,781 for the year under review was not recognized as income for the year, the profit and assets for the year under review were understated by the same amount.

- | | | | |
|-----|---|--|---|
| (c) | According to paragraph 9 of Sri Lanka Accounting Standard No. 02, although inventory should be valued at the lower of cost and net realizable value, as at 31 December in the year under review, the inventory had been recorded in the financial statements at a cost of Rs.16,739,068 without assessing its net realizable value. | Action will be taken in the future to value the inventory at the lower of cost and net realizable value. | Inventory should be valued in accordance with Sri Lanka Accounting Standards. |
| (d) | In accordance with paragraphs 50 and 51 of Sri Lanka Accounting Standard No. 16, the useful life of assets in use should be reviewed annually, and their values should be estimated and accounted for accordingly. However, the value of assets that were fully depreciated but still in use at the end of the year under review, with a cost of Rs.709,173,336, had not been estimated or accounted. | Assets with a carrying value of zero will be revalued in the future and presented in the financial statements. | Financial statements should be prepared in accordance with Sri Lanka Accounting Standards. |
| (e) | In accordance with paragraph 77 of Sri Lanka Accounting Standard No. 16, the revaluation gain of Rs.40,677,054 had not | The answers have not been given. | The revaluation gain should be disclosed in accordance with Sri Lanka Accounting Standards. |

been separately disclosed in the statement of financial position and in the statement of changes in funds.

- | | | |
|---|---|---|
| <p>(f) Although paragraph 16 of Sri Lanka Accounting Standard No. 24 requires the disclosure of remuneration and other benefits paid to related parties, the financial statements had not disclosed details of top management personnel or any transactions with related parties.</p> | <p>The answers have not been given.</p> | <p>Related party transactions should be reported in accordance with Sri Lanka Accounting Standards.</p> |
| <p>(g) According to paragraph 58 of Sri Lanka Accounting Standard No. 39, financial assets should be assessed for impairment at each reporting period, and if they are impaired, such assets should be stated at their carrying amount reduced by the impairment loss. However, as at 31 December of the year under review, an impairment test had been conducted for 208 outstanding balances amounting to Rs. 17,349,400, which had been outstanding for more than 10 years, and instead of disclosing the carrying amount, a provision of Rs. 173,494 had been made for bad debts.</p> | <p>In accordance with Sri Lanka Accounting Standard No. 39, all debtor balances are analyzed, and with the approval of the Audit Committee and the Board of Directors, necessary steps are taken to write off these debtors from the books.</p> | <p>In accordance with Sri Lanka Accounting Standards, impairment of assets should be accounted for when preparing the financial statements.</p> |

1.5.2 Accounting Deficiencies

- | Audit Observation | Management Comment | Recommendation |
|--|---|--|
| <p>(a) Although actuarial gains and losses should be adjusted against retained earnings, the actuarial gain amounting to Rs.19,526,749 had been shown under other reserves in the statement of changes in funds.</p> | <p>The answers have not been given.</p> | <p>Actuarial gains and losses should be adjusted to retained earnings.</p> |

(b) The depreciation expense of Rs.868,732 for the year, relating to laboratory equipment valued at Rs.8,687,329, had not been accounted. As a result, the profit and assets for the year were overstated by the same amount.	This depreciation amount was corrected on 27 January 2025.	Depreciation for the period should be accounted for correctly.
(c) Provisions had not been made in the financial statements for the surcharge of Rs.319,953, since the gratuity payments had not been made on the due dates for four employees who were retired in 2022, 2023, and 2024.	In the future, arrangements will be made to ensure that gratuity payments are made appropriately to employees who were retired.	Provisions should be made for identified liabilities.
(d) The interest income for the year of Rs.27,602,746 that should have been deducted from profit, in the cash flow statement had not been deducted in the statement. In addition, interest income of Rs.150,106,994 received from cash had not been presented under the investing activities. The payment of Rs.11,657,928 paid for 02 types of computer software in the year 2023 and the advance of Rs.168,000,000 paid for the purchase of land in Malabe in the years 2014, 2015 and 2017 were incorrectly stated as cash out flows under investing activities.	The action will be taken to rectify.	The cash flows for the period should be accurately presented in the cash flow statement.

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Observation	Management Comment	Recommendation
(a) 22 contractual retention deposits of Rs.3,220,386, relating to the period 2015–2021, were still	In the future, necessary action will be taken to recognize the income with the approval of	Action should be taken to settle the deposits, ensuring that they are not

shown in the accounts without the Board of Directors. requested again.
being settled.

- | | | |
|---|---|---|
| (b) Nation Building Tax (NBT) payable since 2019, amounting to Rs.49,747,362 was still reflected in the accounts without being settled. | Although an inquiry was made to the Inland Revenue Department regarding this NBT amount, no in writing response was received, so the steps will be taken to adjust this amount to the accounts in the future with the approval of the Board of Directors. | Appropriate action should be taken to settle the outstanding taxes. |
|---|---|---|

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Sri Lanka Standards Institution Act No. 06 of 1984			
(i)	Section 2(c)	When licenses are issued for the use of the SLS logo, it should always be ensured that the relevant products comply with the Sri Lanka Standard. For this, a sample of the product from the open market should be obtained and tested to determine whether the quality system is operating satisfactorily and whether it complies with the license conditions. Accordingly, 924 products had obtained the Standard	During the year ended 31 December 2024, 183 market samples and 133 samples for export testing prior to release to the market had been obtained. Accordingly, 316 samples have been obtained for SLS follow-up testing, and their testing has been completed. Furthermore, to formalize the process of obtaining the necessary samples, a Memorandum of Understanding has been prepared to enter into an agreement with the Consumer Affairs Authority and has been	Follow-up inspections should be conducted to ensure that the products comply with the standards in accordance with the Standards Institutions Act.

		Certification (SLS) as at 31 December 2024. However, the market surveys were conducted in 2024 for only 183 product categories, representing 20 percent.	Logo submitted for their approval.	
(ii)	Section 3(h)	The purpose of establishing the institution is to ensure the quality of goods, raw materials, products, and other related items. However, the necessary control measures had not been implemented to ensure and regulate the quality of products requiring standard certification, or to minimize the risk of non-compliant products reaching consumers.	Under the SLS logo certification system, both product conformity and compliance of the manufacturing process are continuously being monitored. In addition, continuous follow-up audits are conducted in factories for that purpose. During these audits, the organization's quality management system is reviewed to verify its ability to consistently produce SLS-certified products in accordance with the standards. Accordingly, the number of samples taken from the production process during the year ended December 31, 2024, was 1,963. Furthermore, to ensure product quality, random samples are collected from the market and tested.	In accordance with the Act, necessary control measures should be implemented to ensure quality and maintain that quality.
(b)	Payment of Gratuities Act No. 12 of 1983	The gratuity of Rs.760,830 payable to 04 employees who left service in 2022 and	The primary reason for the non-payment of gratuities is that the institution has not	Arrangements should be made to ensure that gratuity payments are made in

	2023 had not been paid up to 31 May 2025, the date of the audit.	received the amounts due from the employees. Accordingly, the amounts due are expected to be recovered in the future, and the gratuity payments will be made.	accordance with the Act.
(c)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i)	Financial Regulation 395(e)	With regard to a one current account, unidentified deposits of Rs.34,708,751 in the bank reconciliation statement for December 2024 were not identified and accounted.	Some of these unidentified deposits have been identified and accounted for in the subsequent months of 2025.
			Unidentified deposits should be identified and properly accounted.
(d)	Section 756(6) of the Financial Regulations as amended by Public Finance Circular No. 01/2020 dated 28th August 2020	The Board of Survey for the year 2024 had not been conducted, and the reports had not been submitted for audit.	The Board of Survey for 2024 is scheduled to be conducted on 29 and 30 May 2025.
			The Board of Survey report should be submitted to the Auditor General before 15 June of the relevant year.
(e)	Operations Manual introduced by State Enterprise Circular No. 01/2021 dated 16th November 2021		
(i)	Paragraph 4.2	Only two Audit and Management Committee meetings were held during the year 2024.	Two Audit and Management Committee meetings were held in 2024.
			At least 04 audit and management Committee meetings should be held per year.

(ii) Paragraph 6.6	The annual report for the year 2023 had not been tabled in Parliament.	The annual report for the year 2023 will be submitted to the Ministry as soon as possible.	The annual report should be tabled in Parliament within five months of the end of the accounting year.
(f) Paragraph 01 of Public Enterprises Circular No. PED/03/2024 dated 23 December 2024	Although institutions generated a profit in the financial year of 2023, the Institutions those who have not remitted at least 30 percent of the profit to the Consolidated Fund as dividends or levies are not entitled to pay staff bonuses based on profitability. However, contrary to this requirement, the institution had paid Rs.7,995,025 to employees as incentives and bonuses for 2023.	The Treasury has approved the payment of this 30% to the Consolidated Fund in 04 installments, and the bonus has been paid accordingly. Arrangements will be made to pay the amount to the Treasury in the future as authorized.	In accordance with the circular, the prescribed remittances from the annual profit should be made to the Treasury, and entitlement for incentives should be obtained.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.488,058,950 and the corresponding surplus in the preceding year amounted to Rs.445,059,698. Therefore an improvement amounting to Rs.42,999,252 of the financial result was observed. The reasons for the improvement are mainly due to an increase in income by Rs.154,464,151, a decrease in total operating expenses by Rs.40,206,320 and an increase in the General Treasury contribution by Rs.75,692,650.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Although the institution had established a computer software system for stock control at a cost of Rs.2,800,000 in 2020, the computer system that was installed could not be effectively used for accurate stock control as expected, since the opening stock balances had not been entered into the system.	Efforts will be made to prevent this situation in the future.	The inventory system should be updated and maintained with the necessary data.
(b)	Although a performance bond had been obtained in accordance with Section 5.4.8(b) of the Procurement Guidelines in respect of Rs.57,596,886 paid to Sri Lanka Telecom in 02 instances for the installation of Local Area Network and IP PBX System, action had not been taken to extend the validity period of it.	A written warning letter, signed by the Deputy Director General, has been issued due to the failure to complete the scheduled projects, and the performance security has been extended accordingly.	Action should be taken to obtain the performance bond in accordance with the Procurement Guidelines.

3.2 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
	During the period from January 2 to September 30, 2023, canned fish stocks imported by 03 canned fish manufacturing companies were rejected due to non-compliance with the expected standards. Since it took between 52 and 188 days to obtain samples for each canned fish consignment and to issue letters indicating non-compliance with the required standards, there was a risk that substandard stocks were released into the market.	In cases where non-conformance is identified during the inspection of canned fish bulk samples, initial defect sorting and 100% sorting are conducted in accordance with the canned fish guidelines and standards. Then, microbiological testing is conducted to make a final decision on defect-free stock. In cases where 100% sorting is required, the time it takes varies depending on the size of the	Necessary action should be taken to expedite the testing of standards. Also, measures should be taken to prevent the release of non-compliant stocks into the market.

stock. It takes approximately 14 to 15 days to obtain the test results. Accordingly, compliance letters are issued for stocks meeting the required standards, while rejection letters are issued for non-compliant stocks. That takes a significant amount of time.