

**1.1 Qualified Opinion**

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The audit of the financial statements of the Accreditation Board for Conformity Assessment for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, 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 report to Parliament appear in this report.

In my opinion, except for 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 Accreditation Board for Conformity Assessment as at 31 December 2019, and of its financial performance and 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 (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**

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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 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 Board'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 Board or to cease operations, or has no realistic alternative but to do so.

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

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

#### **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 scepticism 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 Board'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 Board'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 Board 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements**

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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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

### **1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards**

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<b>Non-compliance with reference to the Relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) The decrease of the provision for depreciations on motor vehicles and air-conditioners of the Board from 20 per cent to 12.5 per cent that should have been adjusted as	I made a note to apply the relevant journal entry to correct the changes caused by the adjustments in the air conditioners and motor	Action should be taken to depreciate non-current assets based on their productive life span

estimate revisions according to the Sri Lanka Public Sector Accounting Standard No. 03 had been retrospectively adjusted in the year 2017 and as such, value of non-current assets had been overstated by Rs.14,111,960. Action had not been taken to correct this error even in the current year.

vehicle depreciation and to show fair value of assets in financial statements.

percentage

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

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a) Sri Lanka Financial Regulations No. 507 (2) and Section 7.4.5 of the Public Enterprise Circular No. PED / 12 dated 02 June 2003	The Board had calculated the value of non-current assets as at 31 December 2019 as Rs. 41,179,616 without conducting annual physical verification.	Although all the activities related to the annual physical verification were planned, it could not be completed due to the sudden situation in the country. However, the report is expected to be completed by the end of July.	Action should be taken in accordance with Sri Lanka Financial Regulations No. 507 (2) and Section 7.4.5 of the Public Enterprise Circular No. PED / 12 of 02 June 2003
(b) Section 6.5.3 of Public Enterprise Circular No. PED/ 12 dated 02 June 2003	The Annual Report of the Board was to be tabled in Parliament 150 days after the end of the financial year but the annual report for the year 2018 had not been prepared by 22 June 2020.	All the details of the annual report for the year 2018 have been collected and the soft copy has been prepared and the necessary arrangements are being made for printing.	That action should be taken in accordance with Section 6.5.3 of the Public Enterprises Circular No. PED / 12 dated 02 June 2003.

## 2. Financial Review

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### 2.1 Financial Results

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The operations of the Board for the year under review had resulted in a surplus of Rs.6,433,653 as compared with the corresponding surplus of Rs. 10,139,790 for the preceding year. Accordingly, a decrease of Rs. 3,706,137 was observed in the financial result. The decrease was mainly due to an increase in expenditure of Rs. 3,286,128 for the 2019 APAC Peer Evaluation (APAC Peer Evaluation)

### 2.2 Tendency Analysis of the Main Income and Expenditure Items

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Board accreditation revenue increased by Rs. 2,367,943 while personal salary expenditure increased by Rs. 3,717,404. Expenditure on travel had decreased by Rs. 1,158,267 in the current year compared to the previous year.

## 3. Operating Review

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### 3.1 Human Resource Management

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#### Audit Observation

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#### Comments of the Management

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#### Recommendation

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(a) It was observed that there were vacancies for 02 senior level posts, 02 tertiary level posts and 01 secondary level posts in the Board as on 22 June 2020 and no action had been taken to fill the vacancies.

The new recruitment procedure for the Sri Lanka Accreditation Board has been prepared with the necessary changes to be made to the existing recruitment procedure and has been submitted to the Department of Management Services for approval. Further, approval has been requested from the Management Services Department for the recruitment to the above vacant posts and a special request has been made to the Commissioner of Elections to give special approval for this. Recognizing the need for these emergency recruitments, the Department of Management Services has promised to approve the recruitment to these posts as soon as possible by making the

That action should be taken to fill the vacancies.

necessary amendments to the recruitment procedure. Therefore, I kindly inform you that the recruitment process for these posts will be carried out as soon as those requirements are met.

- (b) The post of Additional Director has been vacant since the day the staff recruitment procedure was approved and recruitment to that post had not been made even though arrangements had been made for the recruitment from the year 2012. Despite the approval to recruit on the basis of contract extension from year to year as per the letter of CMS / 1601 and the Department of Management Services dated 14th October 2014, the necessary action had not been taken.
- The post of Additional Director is currently on a contract basis. Negotiations are currently underway with the Department of Management Services to re-appoint this post as a full-time post. I kindly inform you that steps will be taken to proceed on the decision given by the Department of Management Services for this purpose.
- That action should be taken to fill the vacancies.
- (c) The Board had not continuously taken action to create posts to make recruitments to the posts below the Executive Grade in order to employ in the accreditation assessment activities and as such, it had not been possible to promote the activities of the Board.
- Compliance assessment is currently carried out by the two posts of Assistant Director (Accreditation) and Deputy Director (Accreditation). It also employs qualified external assesses for relevant accreditation activities. In the case of grades below the executive level, the completion of the required documents for obtaining accreditation applications and the preparation of invoices for payments are done by a specially trained Management Assistant.
- That a second tier team directly involved in the accreditation process should be maintained to expand the activities of the Board and fill vacancies at the executive level.