

Sri Lanka Standards Institute

1. Financial statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Standard Institute as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1:2:1 Accounting Policies

In accounting of the Institute, cash basis for income and accrual basis for expenditure had been adopted.

1:2:2 Accounting Deficiencies

- (a) The value of 4 air conditioners amounting to Rs.322,320 purchased in the year under review had not been brought to account under office equipment and as such the value of office equipment had been understated by that amount.
- (b) Adjustments in respect of obsolete chemical stock valued at R.343,902, non-moving and slow moving stocks of Rs.494,893 and Rs.407,467 respectively observed at the physical verification carried out on 31 December 2011 had not been made in the accounts.

1:2:3 Accounts Receivable and Payable

The following observations are made.

- (a) The trade debtor balance as at 31 December 2011 amounted to Rs.6,065,416 and as proper age analysis had not been prepared, it could not be determined the recoverability of these debts. Further, debtors had consisted of 56 account balances and non-of the institution had confirmed their balances.
- (b) Even though 3 creditors had confirmed their balances out of 11 accounts of trade creditors, they had not agreed with balances. As such it could not be satisfied with the creditability of creditors.
- (c) Balances totaling Rs.3,966,497 in various 23 accounts had been brought forward for a long time without being settled.

1:2:4 Lack of Evidence for Audit

Evidence stated against each item of the following accounts was not available.

Item -----	Value -----	Evidence not made Available -----
	Rs.	
Furniture and Fittings	10,775,698	} Schedules indicating the closing balance of each asset. Verification Reports.
Office Equipment	59,700,842	
Laboratory Equipment	551,469,995	
Laboratory Furniture	3,942,687	
Library Books	15,049,540	

1:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliances with the following laws, rules, regulations and management decisions were observed.

Reference to laws, rules, regulations etc.	Non-compliance
-----	-----
(a) Sri Lanka Standard Institute Act No. 6 of 1984.	(i) Any person who contravenes or fails to comply with the provisions of Section 19(1) or 23 shall be guilty of an offence under this Act and shall be liable to a legal action. The Institute had not taken any legal action against such contraventions. (ii) According to the Section 3(a) standardization and quality control should be carried out by way of education, consultancy and other wise. Nevertheless, only 3 training courses had been conducted during the year for the promotion of testing service sector activities of the industries and technological institutions.
(b) Section 10(5) of the Finance Act, No. 38 of 1971.	All sums remaining out of the net surplus revenue of a public corporation in any year shall be paid to the Consolidated Fund. However, following profits earned during the last 5 years had not been paid to the Consolidated Fund.

Year	Profit earned
-----	-----
	Rs.
2007	779,313
2008	11,580,578
2009	49,915,902
2010	95,956,902
2011	101,032,277

- (c) Consumer Protection Act, No. 01 of 1979. Even though the validity period of the SLS Certificates of 39 local manufacturing institutions for which SLS Certificate emblem should be compulsory had elapsed, renewal of reregistration had been deferred due to various reasons.
- (d) Public Administration Circular No. 8/97 of 03 February 1997. Payment of overtime should be limited to 20 hours per month and if that limit is exceeded under special circumstances, the approval of the Secretary to the Ministry should be obtained on the recommendation of the Head of Department. However, overtime allowances had been paid to the drivers and other officers by exceeding such limit without approval.
- (e) Public Administration Circular No. 2006/11 dated 14 July 2006. Overtime hours for drivers who are attached to officers who are entitled for official vehicles amounts to 100 but the approval of the Secretary to the Ministry had not been obtained for excess hours.
- (f) Gazette No. 144/28 dated 01 July 2006 of the Democratic Socialist Republic of Sri Lanka.
- (i) Out of the sample of 45 instances of import of GI pipes under a certain trade name, 41 had not been up to the SLS Standard. In another 4 instances, the registration had been renewed for the period of 3 years since 04 December 2010, despite the release of imported goods had not been permitted. The Chairman explained that goods were released in considering marginal deviations and it would not affect the users.

(ii) Non-compliance with SLS 829:2009

Year	No. of Importers	Quantity Imported	No. of Samples	Instances of Failures
-----	-----	-----	-----	-----
		Kg.		
2011	12	3,621,375	13	06
GTL	--	265,455	05	03

- (g) Procedure paper No. GL/CP/02 of the Sri Lanka Standards Institute. Although a 10 per cent demurrage charge should be recovered when the customer does not pay the quarterly payment of the annual charge before the end of the quarter, action had not been to recover it. According to this paper, charging the annual fee should be based on the value of annual sales, but such sales valued had not been correctly established.
- (h) Government Financial Regulations : F.R. 757(2) and F.R 102 Action in respect of shortages and damages observed at the physical verification of stock had not been taken. Further, the verification reports in respect of fixed assets valued at Rs.252,762,374 for the year under review were not made available for audit.
- (i) Establishments Code of the Democratic Socialist Republic of Sri Lanka.
- (i) Paragraph 10 of Chapter viii To obtain 1/20th allowance for working in week ends and public holidays, not less than 08 hours per day should be worked. Irrespective of this requirement, the full payment had been paid to the officers of the Institute for working for less than 8 hours per day.
- (ii) Paragraph 4.5 of Chapter xxiv Even though the distress loan balances of Rs.243,790 should have been recovered from 14 officers who had vacated their posts since 1992, action had not been taken to recover such dues even from the suretees who are in service at present.
- (j) National Procurement Guidelines dated 25 January 2006.
- (i) 2.4.1(a) The entire procurement procedure should be followed

by the Procurement Committee and the Technical Evaluation Committee. Nevertheless, a Technical Evaluation Committee had not been appointed for hiring of motor vehicles.

(ii) 9.3.1(b)

Although the approval of the Secretary to the line Ministry should be obtained for repairs for more than Rs.100,000, such approval had not been obtained for the expenditure of Rs.1,069,156 incurred on the repair of motor vehicle bearing No. K1-4238.

1:2:6 Irregular Transactions

Payment of allowances on attendance basis

Contrary to paragraph 8.3.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 and Management Services Circular No. 39 dated 26 May, incentives on attendance basis had been paid at Rs.8,000 per month each employee on a decision of the Board of Directors. A sum of Rs.2,842,600 had been paid such attendance incentives during the year under review without the approval of the Treasury.

2. Financial Review

2.1 According to the financial statements presented, the operation of the Institute for the year ended 31 December 2011 had resulted in a surplus of Rs.101,032,277 as compared with the surplus of Rs.95,956,902 for the preceding year. Increase in other income by Rs.47 million and increase in personnel emoluments by Rs.25 million had been the main reasons for the increase of this surplus.

3. Operating Review

3:1 Physical Performance

In the examination of action plan for the year 2011 and the actual performance, instances of non-achievement of expected targets were observed.

Item	Target	Actual Performance
(i) Standards Institute Building	Construct of the 8 th floor of the Institute by incurring a sum of Rs.30,000,000.	Construction works of the 8 th floor had not been commenced.
(ii) Scientific and Engineering Standards	Conduct of 8 standard promotion programmes.	Standard promotion programmes not conducted.
(iii) Laboratory Services.	Testing 18 samples of Laboratories in new fields such as paints, shoes, cosmetics and tea.	New testing samples not carried out.
(iv) Calibration Services.	Supply of weight force new calibration services.	Services not provided.
(v) Marketing and Promotion.	Organization of 10 Educational Programmes for school children.	Only 5 educational programmes were organized.
(vi) Product Certification.	* Introduction of a Standard Certification Scheme for tea production.	A provision of Rs.1,500,000 had been made in the budget to introduce a standard certification scheme for tea production, but this scheme had not been introduced.

* Awarding 28 new Only 10 new Standard standard certificates for Certificates for tea had been tea production. issued.

* Introduction of a Standard Certification Standard Certification Scheme had not been Scheme for rice and introduced for rice and fertilizer. fertilizer.

(vii) Quality Assurance Adding 30 new items for Only 10 new items were import testing scheme. added.

3.2 Management Inefficiencies

The following management inefficiencies were observed.

- (a) A shortage of 380 library books were reported at the physical verification of stores carried out in the year 2010.
- (b) Considerable delays were reported in the issue of test reports issued by the Laboratory Division.

3:3 Idle and under utilized assets

The following vehicles belonging to the Institute had been away from running for along period but no action in terms of Public Finance Circular No. 353(5) dated 31 August 2004 had been taken in this regard.

No. 57 – 6208 - Cab
No. 15 – 3216 - Vagon Car
No. 32 – 2870 - Motor Van

3:4 Resources of the Institute given to the other Government Institutions

The following observations are made.

- (a) A sum of Rs.244,521 had been reimbursed in the year under review for a Management Assistant stating that he had been attached to the Standard Institute from the National Youth Services Council, but it was observed in audit that such an officer had not been attached to the Standards Institute and served.
- (b) A female training officer who had been attached to the Standard Institute from the National Apprenticeship and Industrial Training Authority for training had been attached to the Ministry of Technology and Research and the Institute had paid her salaries and incentives during the year under review.
- (c) The motor cab bearing No. 57-6208 belonging to the Institute had been released to the Ministry of Technology and Research and handed over back after being operated. The Standard Institute had spent a sum of Rs.228,098 for the repair of this vehicle.

3:5 Personnel Administration

Seven senior executive posts had been vacant even at the end of the year under review and certain posts therefrom had been vacant since the year 2004.

3:6 Vehicles Utilization

Although the Institute has 19 vehicles, service of 5 hired vehicles and the cab service in addition to that had been obtained due to 3 drivers vacancies. The amount paid for obtaining hired vehicles during the year under review was 4,921,124.

3:7 Delayed Projects

Small and Medium Scale Entrepreneurs Encouraging Project

- (i) Expenditure incurred on the objective of the above project implemented in 2 stages from the provision of Rs. 30,329,577 made for issuing quality control certificates to small and medium scale Entrepreneurs amounted to Rs.10,040,897. It represented 33 per cent of the total provision and 53 per cent had been spent for other expenses.

- (ii) The project proposed to be completed in the year 2010 had not been completed even in the 2011. The Treasury approval to carry on further this project had not been obtained and the balance of Rs.4,079,759 had remained idle in the current account.
- (iii) According to the paragraph 5.1 of the agreement with the small and medium scale industrialists by the Standards Institute, if the quality report is not ascertained the money received should be refunded. Action had not been taken either to obtain quality certificates or refund the money in respect of a sum of Rs.1,354,475 given under stage I and II.
- (iv) Two institutions by which certificates had been obtained under this project the payment of annual fee had been evaded.
- (v) Written evidence to ensure whether the annual license fees had been paid by 5 institutions was not made available for audit.

4. Accountability and Good Governance

4:1 Budgetary Control

In comparing the budgeted income of the Institute with actual values, it was observed that there were variations ranging from 21% to 466% thus, it was observed that the budget had not been prepared in conformity with the Corporate Plan/ Action Plan.

5. Systems and Controls

Deficiencies in systems and controls observed in audit were brought to the attention of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Verification of stores
- (b) Maintenance of a register of fixed assets
- (c) Debtors control
- (d) Imports inspection

- (e) Issue of test reports
- (f) Holding National Quality Award ceremony