Sri Lanka Standards Institution - 2013

The audit of financial statements of the Sri Lanka Standards Institution for the year ended 31 December 2013 comprising the Statement of the Financial Position as at 31 December 2013 and the comprehensive statement of income, statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 37(3) of Sri Lanka Standards Institution Act, No. 6 of 1984. My comments and observations which I consider should be published with the Annual Report of the Institution in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Institution`s presentation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Standards Institution as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following non-compliances with SLAS were observed

(a) Standard No. 07

Investments of the Institution amounting to Rs.335,000,000 with maturity period of 04 months had not been shown as cash and cash equivalents.

(b) Standard No. 16

Even though the effective life period of the asset should be taken into consideration for the determination of the policy on depreciation, it had not been taken into consideration in depreciating the computers and accessories of the Institution.

(c) Standard No. 19

Provision for gratuity amounting to Rs.397,432 had not been made for an officer who was on duty as at 31 December of the year under review.

(d) Standard No. 20

Even though the fixed assets costing Rs.142,574,417 purchased prior to the year 2004 by utilizing capital grants had been fully depreciated the total capital grant had been shown as accumulated funds in the statement of financial position without accounting for the amortization relating thereto.

2.2.2 Accounts Receivable and Payable

The following observations are made.

(a) The Treasury Deposit Account balance totaling Rs.1,127,500 and the Treasury Surplus Fund totaling Rs.500,000 had been dormant since the year 1973 and 1980 respectively up to the year under review.

(b) Out of the debtors balance of Rs.35,917,115 as at 31 December of the year under review comprising 371 Trade Debtors Accounts, 50 per cent had been outstanding over periods ranging from 2 to 5 years and the debtors balance amounted to Rs.7,973,344 and that represented 22 per cent of the total debtors balance. Adequate action had not been taken for the recovery of the debts.

(c) The Employees` Provident Fund Control Account, the Employees` Trust Fund Control Account and the Value Added Tax Control Account included unidentified credit balances amounting to Rs.1,399,246.

(d) A sum of Rs.800,000 had been received from the National Science Foundation from 20 May 2011 to 17 January 2013 for the project on the Theme for the Preparation of the Legal Framework for the Development of Activities relating to Nano Technology. Even though a sum of Rs.793,312 had been spent according to the records of expenditure, a sum of Rs.521,298 remained unsettled under the sundry creditors.

2.2.3 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 and Regulations	Particulars
(a) Payment of Gratuity Act, No. 12 of 1983 Section 6(2)	The basic salary instead of the salary with allowances had been applied as the basis for the payment of a sum of Rs.6,752,129 as the gratuity to 15 officers who retired in the year 2013.
(b) Financial Regulation 394 of the Democratic Socialist Republic of Sri Lanka	Action in terms of the Financial Regulation had not been taken on 14 dishonored cheques totaling Rs.455,158.

(c)	Establishments Code of the Democratic Socialist Republic of Sri Lanka Chapter VIII Section 10	Even though a period of not less than 08 hours of service should be performed per day for obtaining the 1/20 allowances for working on weekends and public holidays, the 1/20 allowance had been paid to the officers of the Institution who had worked only for 06 hours.
(d)	Circular No. MF/TR/1/2003 dated 28 March 2003 of the Secretary to the Ministry of Finance, Public Enterprises Circular No. PED/28 of 31 January 2005 and paragraph 2 of the Public Finance Circular No. 353(5) of 31 August 2004.	In the procurement of motor vehicles on hire basis, motor vehicles should be hired within monthly hire of Rs.40,000 (excluding Value Added Tax). Nevertheless, the payments for 05 motor vehicles hired by the Institution had been made exceeding that limit without obtaining the approval of the General Treasury. Payment for hired motor vehicles had been on the number of kilometres run and instances of monthly hire charge exceeding Rs.113,000 were observed.

2.2.4 Transactions not covered by Adequate Authority

The following observations are made.

(a) Contrary to Section 8.3.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and the Management Services Circular No. 39 of 26 May 2009, Rs.27,110,800 and Rs.25,705,600 had been paid as incentive allowances to the officers in the year under review and the year 2012 respectively based on the income of the Institution and the attendance of the officers in accordance with the decision of the General Council dated 28 February 2012.

(b) Contrary to the Management Services Circular No. 39 of 26 May 2009, the public Finance Circular No. PF/PE/05 of 11 January 2000 and the Department of Public Enterprises Circular No. 95 of 04 June 1994, a sum of Rs.28,115,063 had been paid to the staff of the Institution as transport allowance, uniform allowance, meal allowance and weekend allowance in accordance with the decisions of the General Council.

3. Financial Review

3.1 Financial Result

According to the Financial Statements presented, the operation of the Institution for the year ended 31 December 2013 had resulted in a surplus of Rs.96,751,550 as compared with the corresponding surplus of Rs.68,349,797 for the preceding year. Accordingly, the improvement of the financial results of the year under review by a sum of Rs.28,401,753 had been mainly due to the increase of the income by a sum of Rs.64,683,276.

3.2 Analytical Financial Review

According to the statement of financial position presented, the working capital ratios of the Institution are given below.

Ratio	**Year 2013**	**Year 2012**
Current	14:1	14:1
Quick	13:1	13:1

Out of the current assets 75 per cent represented the investments made in the Repurchase Market due for maturity in February and April 2014. It was observed that a large amount of the money of the Institution had been held in liquid assets.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Comparison of the Action Plan and the actual performance of the Institution during the period from January to December 2013 revealed that the ISO-9001 Certificate and Production Certifications had not been obtained while only 03 foreign suppliers had been registered as against the target for registration of 20 foreign suppliers. In addition, the inclusion of new items to the Import Inspection Scheme and the introduction of quality certificates for exports had not been done.

(b) Even though the Institution had collected a sum of Rs.672,000 in 16 instances from January 2012 to June 2013 at the rate of Rs.11,500 for the testing of sample of imported cement and Rs.2,500 for the expeditious performance of the tests, there were delays ranging from 2 ½ months to 5 months in issuing reports.

(c) Even though obtaining the Standard Certificate for tooth paste under the Sri Lanka Standard Specification 275:2006 is compulsory, the issue of a Standard Certificate to an institution which made an application in February 2009 had been delayed up to the year 2010 while action had been taken to issue a Standards Certificate to another tooth paste which did not conform to the specifications.

(d) According to an agreement entered in to between the Coconut Development Board and the Institution for the grant of "Quality production certification" for the coconut related industries, the issue of "Quality Products Certification" to 84 Institutions by the end of the year 2013 had been targeted. Nevertheless certificates had been issued only to 44 institutions.

4.2 Management Inefficiencies

The following observations are made.

(a) Stocks of 221,649,011 kilogrammes of cement imported under the trade name "Kohonoor" from 31 July 2009 to 30 June 2013 in 109 instances and 3,834,000 kilogrammes of cement imported under the trade name "Lucky" from 12 November 2011 to 03 June 2013 which did not conform to the compression strength between 42.5 to 62.5 in accordance with Sri Lanka Standards Specification 107:2008 applicable to cement had been released to the market.

(b) The Institution had not taken action even up to the end of the year under review to obtain the test reports on 68 samples of cement sent to two foreign private laboratories in England and Singapore from May 2012 to June 2013 for testing whether the imported cement conform to Sri Lanka Standard 107:2008.

(c) Two institutions had not paid a sum of Rs.220,000 for Management Systems Certificates in respect of the years 2002 to 2007 and that had been brought forward in the debtors balances.

(d) The Institution had obtained hired motor vehicle service from two private institutions for urgent one day services of the Institution. In obtaining the service, action in terms of the Procurement Procedure had not been taken to obtain the hired motor vehicle service at a minimum cost and that service had been obtained continuously over a period of 05 years even without obtaining the approval of the General Council. A sum exceeding Rs.110 per kilometre had been paid for obtaining the hired motor vehicle service from the two private companies. In view of the selection of the two institutions without transparency, the institution had evaded the opportunity of obtaining the service for a lesser cost.

(e) A stock of 2,001,300 kilogrammes of milk powder imported to Sri Lanka from a foreign company in 28 instances had been released to the market without carrying out the Standards tests in accordance with Sri Lanka Standards Specification 731:2008.

(f) Even though the microbe tests on margarine should be carried out compulsorily in accordance with paragraph 5:5 of Sri Lanka Standing Standards Specification 2011:1427, stocks of 420,000 kilogrammes valued at Rs.42,147,500 had been permitted for release without carrying out the microbe tests in 06 instances from 01 May to 05 May 2013.

(g) According to paragraph 5:2 of Sri Lanka Standards Specification 883:1990, the heavy metal test should be carried out compulsorily before permitting the release of stocks of brown sugar. Nevertheless, permission for the release of stocks of 9,200,400 kilogrammes had been granted without such tests in 30 instances from December 2012 to 31 December 2013. Even though the institution informed that the release of goods can be permitted by carrying out only the spot checks, the non-achievement of the objectives of formulating standards was observed in audit.

(h) According to paragraph 5.1(H) of the Sri Lanka Standard Specification 107:2008 the effective life of cement is 90 days from the date of packing by the manufacturer. Nevertheless, 6,113,000 kilogrammes of imported cement valued at U.S.$ 337,732 which had expired that period had been released to the market.

(I) According to classification 1 of GL-11-04 if imports are tested on a certificate approved by a foreign government institution, one in 03 imported stock should be tested. Nevertheless, stocks of 6,600,175 kilogrammes of milk powder imported from a private institution in 30 instances had been released without carrying out the Standards tests and issued to the marker.

4.3 Transactions of Contentious Nature

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The following observations are made.

(a) Even though a stock of 50,000 kilogrammes of milk powder imported form a foreign company under Entry No. 879260 had the seal "samples required" stamped, that had been issued to the market without obtaining samples or the issue of test certificates.

(b) According to Sri Lanka Standards Specification 731:2008, eight parameters should be tested to examine the content of the imported milk powder. Even though a sum of Rs.251,700 had been obtained from the client for 20 samples, detailed test reports including parameters had not been issued.

(c) A stock of 25,575 kilogrammes of milk powder under Entry No. 874305 had been permitted for lease on 08 May 2013 after testing the sample received on 14 August 2012. The stock of milk powder was due to expire in December 2013. It was observed that there was a risk of expiry of shelf life of the milk powder within the period of 07 months from the date of the test report and packing and issue to the market.

(d) Even though the Atomic Energy Authority carries out tests of the radioactive matter not covered under Sri Lanka Standards present in the imported milk powder, in view of the absence of a methodology between the two institutions for the Standard Institution to obtain the results of the tests carried out, the existence of the risk of issuing contaminated milk powder to the market was observed.

4.4 Underutilization of Funds

The following observations are made.

(a) Instead of carrying out an evaluation of the investments yielding a higher rate of interest, a sum of Rs.805,000,000 had been invested in 04 instances in the year in Repurchase Agreements. Instead of re-investing immediately on maturity the money had been retained in the Current Account and as such the interest lost during the idle period amounted to Rs.2,830,597.

(b) A sum of Rs.30,329,577 had been received in the year 2006 to award Standards Certificates to the small and medium scale industrialist in collaboration with the Export Development Board and the project had been completed in the year 2009. The balance sum of Rs.4,079,759 out of that had been retained idle in the Current Account.

4.5 Uneconomic Transactions

Even though the Proving Ring and Loading Cell machine valued at Rs.8,700,000 had been sent to a foreign country for calibration at a cost of Rs.429,280, the Machine had been brought back on 27 November 2013 without carrying out the calibration. Nevertheless, action had not been taken even up to 31 December 2013 for the recovery of the sum of Rs.150,744 as the test fees.

4.6 Personnel Administration

Vacancies in 57 Executive and Non-Executive posts in the staff existed as at 31 December 2013.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The Institution had presented the financial statements for the year ended 31 December 2013 prepared in accordance with the Generally Accepted Accounting Principles in terms of paragraph 6.1.1 of the Treasury Circular No. 2004/01 of 24 February 2004 on 28 February 2014. Subsequently, after two months, the financial statements prepared in accordance with Sri Lanka Accounting Standards had been presented on 02 May 2014.

5.2 Procurement Plan

Even though the Institution had prepared a Procurement Plan for the laboratory and office equipment required for the year under review, action had not been taken even by 31 December 2013 for the purchase of 12 items of laboratory equipment and the office equipment valued at Rs.30,400,000 and Rs.8,500,000 respectively included therein.

5.3 Budgetary Control

Variances ranging from 10 per cent to 69 per cent were observed between the estimated income and expenditure of the budget for the year under review and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of financial control.

6. Systems and Controls

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

(a) Income Receivable
(b) Debtors
(c) Motor Vehicles Control