

Sri Lanka Standards Institution - 2014

The audit of financial statements of the Sri Lanka Standards Institution for the year ended 31 December 2014 comprising the Statement of financial position as at 31 December 2014 and the comprehensive statement of income, statement of changes in funds 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. 06 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 assessments, the auditor considers internal control relevant to the Institution's preparation 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 2014 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 Sri Lanka Accounting Standards were observed.

- (a) According to Sri Lanka Accounting Standard 01, revenue, expenses and assets and liabilities should be brought to account without being set off except for a particular instance. Nevertheless, the revenue had been brought to account after deducting expenses in posting revenue, in the statement of comprehensive income.
- (b) Even though the effective lifespan of the asset should be taken into consideration for the determination of the percentage of depreciation according to the Sri Lanka Accounting Standard 16, it had not been so taken into consideration in depreciating the computers and accessories of the Institution. Computers and accessories had been classified under the office equipment and rate of depreciation thereof was 10 per cent. The value of computers and accessories purchased only from the year 2012 to the year 2014 amounted to Rs.15,539,897.
- (c) Even though the cash flow statement should be prepared so as to reflect the cash inflow and cash outflow during the year according to the Sri Lanka Accounting Standard 07, the following weaknesses were observed in the cash flow statement prepared.
 - (i) The fixed assets valued at Rs.139,680 received by the Institution as donations during the year under review had been erroneously shown under the cash flow received from financing activities as cash receipts whereas the purchase of fixed assets had been shown under the investment activities.
 - (ii) In adjusting the interest income to the surplus of the year under the net cash flow received from operating activities, it had been understated by Rs.129,569 and the actual interest income generated in cash had not been computed.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The balance amounting to Rs.1,627,500 receivable from the Treasury Deposits and the Treasury Surplus Fund and a sum of Rs.4,126,759 payable for the Small and Medium Scale Industries Project and a sum of Rs.297,541 payable for the Economic

Benefits of Standards Project had been shown in the accounts without being settled since several years.

- (b) Out of the debtors balance at the end of the year under review, the balance between 2 and 5 years amounted to Rs.24,576,319 and that represented 71 per cent of the total debtors balance. The balance over 5 years amounted to Rs.9,813,293 and that represented 28 per cent of the total balance. Action had not been taken for the recovery of these debts.
- (c) A sum of Rs.219,460 granted as short term loans and advances had not been settled even after a lapse of over a period of one year and action had not been taken even by April 2015 to settle an advance for orders totalling Rs.1,340,410.
- (d) The Employees` Provident Fund Control Account, the Employees` Trust Fund Control Account and the Value Added Tax Control Account included unidentified credit balances totalling Rs.1,060,447.

2.4 Non-compliances 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 and Management Decisions | Non-compliance |
|--|--|
| <hr/> | |
| (a) Circular No. 2001/03 of 02 July 2001 of the Ministry of Finance and Planning | Even though reports on the training should be submitted within 02 weeks from the date of return to the island on the completion of the training by officers who proceed abroad, two officers proceeded abroad had not taken action to submit those reports. |
| (b) Paragraph 3 of Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka | An officer on probation should not be sent abroad for study or training except to obtain a qualification required for the confirmation in terms of his appointment. Contrary to that, an Assistant Directress who was not confirmed in the service had been made to participate in a foreign conference. |
| (c) Public Finance Circular No.353 (5) of 31 August 2004. | In obtaining hired motor vehicles, the payments should be made within the monthly limit of Rs.40,000. Nevertheless, a sum of Rs.2,890,403 had been paid exceeding that limit to 04 vans of the Institution in the year under review. |

3. Financial Review

3.1 Financial Results

According to the Financial Statements presented, the operation of the Institution for the year ended 31 December 2014 had resulted in a surplus of Rs.91,394,529 as compared with the corresponding surplus of Rs.96,751,550 for the preceding year, thus indicating a deterioration of Rs.5,357,021 in the financial results of the year under review. Increase in the operating expenditure by Rs.44,744,533 had mainly attributed to this deterioration.

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 2014 ----- | Year 2013 ----- |
|-----------------------|---------------------------|---------------------------|
| Current | 8:4 | 13:9 |
| Quick Assets | 8:2 | 13:5 |

Out of the current assets, 70 per cent represented the investments made in the Repurchase Market due for maturity in March and May 2015. A large amount of funds of the Institution had been retained in the liquid assets.

4. Operating Review

4.1 Performance

In the comparison of the Action Plan with the performance of the Sri Lanka Standards Institution during the period from January to December 2014, the matters observed are given below.

- (a) Action had not been taken even in the year under review to obtain the ISO-9001 Standards Certificate to the Institution.
- (b) Even though the Sri Lanka Standards Institution together with the Tea Board had intended to issue Sri Lanka Standards Certificates (SLS) for tea and 12 certificates for packing institutions under an estimated expenditure of Rs.1.2 million, not even one certificate had been issued.
- (c) Even though it had been planned to hold 80 trainings for the entire staff and 110 individual trainings of the Institution under an estimated expenditure of Rs.12.5 million, only 30 trainings for the staff and 57 individual trainings had been conducted.

4.2 Management Inefficiencies

The following observations are made.

(a) GIZ Project for the Development of Small and Medium Scale Industrialists

The Sri Lanka Standards Institution together with the Federal Republic of German had commenced 2 projects for the development of small and medium scale industrialists. Even though all foreign aid received to the State Corporations should be forwarded through the Ministry in Charge of the Corporation according to Financial Regulation 623, an amount totalling Rs.7,969,250 had been credited directly to the account of the Institution.

(i) Project with the Agreement No. FA 83180813 -2014

- Even though the Draft National Quality Policy of this project of which the main objective was the preparation of National Quality Policy, had been prepared, out of the project amount of Rs.11,538,500, a sum of Rs.4,969,250 could not be obtained as at 31 December of the year under review due to failure in declaration of the Quality Policy and submission of accounting reports.
- A sum of Rs.4,320,000 had been obtained as the 5th activity of this project for 54 exhibition stalls of products of small and medium scale industrialists of the exhibition held for the golden jubilee of the Institution and particulars in respect of small and medium scale industrialists actually arrived had not been presented to audit.

(ii) Project with the Agreement No. FA 83166673 -2014

- The objective of this project is the issue of Standards System Certification to improve the quality of products of the small and medium scale industrialists in North, East and Uva Provinces. However, the activities which should be performed under this project as at 31 December 2014 had not been completed and as a result, a sum of Rs.3,500,000 receivable on that date could not be obtained.

(b) Testing of Imported Cement

- (i) According to the Sri Lanka Standards Specifications 107:2008, 12,060,000 kg of cement imported under two trade names by two private institutions, which did not conform to the prescribed compressive strength specifications that is, the compressive strength class was not in the range of 42.5 to 62.5, had been released to the market.
- (ii) Permits of two trade names which did not conform to the relevant standards had been extended to 06 months and one year.
- (iii) According to paragraph 5.1(h) of the Sri Lanka Standards Specification 107:2008 applicable to cement, the lifespan of cement should be mentioned on the package. Accordingly, approximately 90 days had been taken to

mention and approve as “cement stock can be released” on the package containing 336,500 kg of cement in which the validity period was marked as 90 days from the date of packing by the manufacturer.

- (iv) It was observed that 13,944,000 kg of cement imported by the Attock Cement Company in the years 2013 and 2014 had been released to the market before receiving the test reports.

(c) Testing of Imported Canned Fish

- (i) According to the Sri Lanka Standard 591-1982, all the imported stocks of unregistered manufacturers should be tested compulsorily by all testing methods (visibly, chemically, physically, microbiologically and hygienically). Nevertheless, only random tests had been carried out for the 3rd, 4th and 5th stocks according to the instruction leaflet No. GL-11-04-01-12 introduced on 24 October 2011 and 472,862 kg had been released to the market during the year 2014.
- (ii) There were instances where the officers who obtained samples for tests had themselves acted as members of the same testing committee as well.

(d) Testing of Imported Noodles

- (i) Stocks of imported Noodles had been released from November 2012 to July 2014 without testing all requirements according to Section 5:3:3 of the Sri Lanka Standard 420:1989.
- (ii) Even though testing of peroxide level of instant noodles was one of the essential parameters, the Management had not taken action to make manufacturers aware of it.

(e) Testing of Imported Electric Lamps

- (i) Action had not been taken to obtain test reports of 220 samples which were sent to external institutions in the years 2011 and 2012 to check whether the fluorescent bulbs imported to Sri Lanka are in conformity with Part 1 and 11 of Sri Lanka Standard 1231:2002, to the Institution even by January 2015, the date of audit. As such, importers were unable to release stocks.
- (ii) Action had been taken to release the stocks of 234,640 kg of imported florescent electric lamps valued at US\$ 2,951,574 without fulfilling the requirements of Harmonic Current Limits and SDCM Value cited in Sri Lanka Standard 1231:2002.

(f) Testing of Imported Gas Cylinders

- (i) The gas cylinders imported to Sri Lanka should be in conformity with Sri Lanka Standard 1178:2013 and a portable X-ray equipment had been purchased in the year 2013 to carry out the radiation test of those gas cylinders. However, that equipment could not be operated due to failure in arranging the environment required to operate (a room with facilities to prevent the leakage of radiation, alarm equipment, anti- radiation protection covers) and purchasing 3 sub units at an estimated value of Rs.6,102,000 up to September 2014, the date of audit.
- (ii) A number of 543,966 gas cylinders had been imported in 43 instances by two importers during a period of one year from 21 June 2013 to 25 July 2014 and the X-ray test for those gas cylinders had been carried out only in 5 instances. Out of those 5 tests, 2 had failed.
- (iii) X-ray tests for gas cylinders should be carried out in renewing the permit of the manufacturer of gas cylinders and 11 X-ray tests had been carried out for a period 03 years from the year 2010 to year 2013. Out of that, 03 reports had failed and 2 had not been received even by the date of audit. Under that circumstance, permits had been renewed.

(g) Management System Test on Food Safety

Even though the certificate holder is liable to pay charges for every year for the certified period of 2009-2013 in terms of paragraph 06 of the Standards Management Systems Agreement, payments totalling Rs.626,668 had been defaulted by 06 institutions.

4.3 Idle and Underutilized Assets

The following observations are made.

- (a) The following matters were observed during the test check carried out in respect of the stationery stores belonging to the Institution.
 - (i) Twenty stock items valued at Rs.238,301 older than 10 years had remained in the stores without being issued.
 - (ii) A space approximately 50 per cent of the entire premises of the stores had been utilized for storing samples received from time to time for test check of the Institution not belonging to the stores and goods owned by the Religious Society and Welfare Society of the Institution.
- (b) The following matters were observed during the physical verification of chemical and glassware stores.

- (i) A quantity of 749 items valued at Rs.1,695,654 had remained in the chemical stores since 10 years without being utilized.
- (ii) It was observed during the physical verification of chemical stores on 12 September 2014 that a large quantity of expired chemicals had been stored in the shelves of the stores. The dates of expiry had not been mentioned on most chemicals and as such, they could not be observed in audit.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) There were instances where the expired chemicals had been issued for testing activities of the Standards Institution. The accuracy of the results obtained from such tests was problematic.
- (b) Gold sovereigns totalling Rs.7,374,906 and gift vouchers as well valued at Rs.47,500 at a rate of Rs.5,000 and Rs.2,500 had been granted to 227 officers who serve in the Institution based on their service period for the 50th Anniversary of the Institution without an approval of the Treasury.

4.5 Deficiencies in Contract Administration

An engineering estimate at a value of Rs.96,062,608 (including VAT) had been submitted for the construction of the 8th floor of the Sri Lanka Standards Institution. The following observations are made thereon.

- (a) The development permit obtained on 27 August 2012 for constructions from Colombo Municipal Council had expired on 27 August 2014. Moreover, the date of completion of constructions had been 13 July 2015 and the permit had not been renewed for the year 2014/2015.

(b) Calling Quotations and Awarding Bids

- (i) Quotations of a private company by which the minimum quotation was submitted, had been rejected in evaluation of bids due to an arithmetical error of Rs.13,813,211 in those quotations. However, according to the ICTAD Classification, this contractor had belonged to the C-1 category which is the highest Grade for constructions and it had been rejected without written inquiring from the relevant company in respect of the above error.
- (ii) The contract had been awarded to a value of Rs.74,109,282 for the company by which the second minimum quotation had been submitted and submission of photocopies relating to the value of Rs.7,293,680 and deletion of page numbers of the Bill of Quantity of the contractor had been made and this contractor was a level C 3 contractor.

- (iii) Quotations of the selected contractor had been received on 26 November 2013. Further, in examination of the Bill of Quantity of the second copy which was not opened, of the bidding document submitted by the bidder, it had been confirmed in audit that Bills of Quantity valued at Rs.2,069,150 among those quotations had been obtained by Fax on 25 November 2013 which was the day before receiving the bidding document.
- (c) The State Engineering Corporation had been selected for consultancy services of these constructions on 10 October 2010 and it had been agreed to pay a charge of 8 per cent representing Rs.7,685,000 of the contract cost for activities carried out from the process of creating models up to constructions and maintenance stage. A sum of Rs.5,476,049 had been paid by 31 March 2015 and in addition, another Project Manager had been recruited, subject to the payment of Rs.125,000 per month from 31 March 2014 and a maximum of 20 inspections and a sum of Rs.155,000 had been paid monthly as at 31 March 2015.
- (d) According to the Letter of awarding the contract of constructions issued on 30 June 2014, the date of commencement of constructions was 14 July 2014. Nevertheless, signing the agreements had been delayed for 2 months from 25 September 2014.

4.6 Personnel Administration

Fifty one vacancies in the staff of the Institution existed as at 31 December 2014 and out of that, 4 vacancies in the post of Management Assistant (Non-technology) existed. Seven persons had been recruited for the posts of Management Assistant on contract basis in the year under review.

5. Accountability and Good Governance

5.1 Procurement Plan

According to the Procurement Plan for the year under review, action had not been taken even by May 2015 to purchase 25 laboratory equipments at an estimated value of Rs.94.4 million.

5.2 Deviation from the Procurement Guidelines

A Horizontal Thermocouple Calibration Machine valued at Rs.4,229,715 for standards calibration activities and a portable X-ray equipment valued at Rs.11,993,960 for radiation testing of gas cylinders of the Mithi Laboratory had been purchased and the following non-compliances with the Procurement Guidelines had been observed in the procurement process.

- (a) According to Guideline 5.4.10, a performance security of 10 per cent of the contract value should be submitted and it should be valid till 28 days after providing goods. However, a performance security had not been submitted for the calibration machine.
- (b) According to Guideline 8.9.1, a formal agreement should be written and signed after the acceptance of the bid. However, the Institution had not taken action to sign such an agreement.

- (c) According to Guidelines 5.4.13 (a), provisions had not been made in the contract mentioning the basis for computation of liquidated damages, subject to a maximum, for delays in the delivery of goods and delay charges had not been recovered for the period of delay of receiving and fixing of goods.

5.3 Budgetary Control

Variances ranging from 10 per cent to 91 per cent were observed between the estimated and the actual income and expenditure of the budget for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management 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) Debtors Control
- (b) Standards Testing of Imported Goods
- (c) Stock Control
- (d) Contract Administration