

Sri Lanka Standards Institution - 2015

The audit of financial statements of the Sri Lanka Standards Institution for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 Auditing 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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lanka Standards Institution as at 31 December 2015 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 observations are made.

(a) Sri Lanka Accounting Standard 01

Even though income and expenditure should not be offset against each other unless required or permitted by a Sri Lanka Financial Reporting Standard, the income had been brought to account after deducting expenditure amounting to Rs.33,395,289 in bringing to account the income of several sources of income of the Institution.

(b) Sri Lanka Accounting Standard 07

Even though a sum of Rs.22,110,557 shown as the interest income in the statement of comprehensive income by deducting to the net surplus and the interest income amounting to Rs.22,160,907 received in cash in the year under review should have been added under investment activities in preparing the cash flow statement, a sum of Rs.26,989,134 as interest income had been stated by deducting and adding.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.1,627,500 had been stated as receivable Treasury Deposits and the Treasury Surplus Fund as at 31 December of the year under review and even though a request for the recovery of that amount had been made to the General Treasury, it had not been recovered even by 31 December 2015.
- (b) Even though 63 per cent or Rs.21,954,769 out of the debtors as at 31 December of the year under review amounting to Rs.34,604,366 had been old between 2 to 5 years and 36 per cent or Rs.12,291,934 had been older than 5 years and action had not been taken to recover these loans.
- (c) Action had not been taken to settle advances totalling Rs.1,582,708 granted in 32 instances in the year under review even by August 2016.
- (d) A sum of Rs.4,126,759 out of a sum of Rs.26,294,152 received for the Small and Medium Scale Industrialists scheduled for completion by the year 2010 had not been

utilized due to the inability to select suitable industrialists and the project had not been completed even by 31 December 2015. Action had not been taken either to extend the project or to settle the money.

- (e) Action had not been taken to recover money receivable for 13 dishonoured cheques valued at Rs.445,572 that existed since the year 1998.

2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

Statements that should be obtained from the members of Procurement Committees and Technical Evaluation Committees in terms of Guideline 2.12 of the Procurement Guidelines 2006 had not been obtained.

2.5 Transactions not supported by adequate Authority

The following observations are made.

- (a) Combined allowances at Rs.1,200 per period of less than 8 hours, Rs.2,000 per period between 8 hours to 12 hours, Rs.6,000 if it exceeds 28 hours had been paid in the year under review for the officers of the Metrology Unit contrary to the provisions of the Establishments Code in the payments of combined allowances and over payments amounting to Rs.618,900 made in 19 instances contrary to the provisions in the Establishments Code were observed at an audit test check.
- (b) Sums of Rs.28,662,400, Rs.21,370,204, Rs.5,699,500, Rs.4,162,625 and Rs.4,717,505 as incentives, transport allowances, nutrition allowances, weekend allowances and uniform allowances respectively had been paid in the year under review for the staff of the Institution without the approval of the Treasury based only on the decision of the Council in terms of the Public Finance Circular No.PF/PE/05 of 11 January 2000 and the Public Enterprises Circular No.95 of 14 June 1994.
- (c) A land belonging to the Sri Lanka Land Reclamation and Development Corporation is being used for the parking of vehicles of the Institution and a sum of Rs.455,857 had been paid as tax rental for a period of three years from the year 2013 despite a tax agreement had not been made by both parties even by the date of audit of 31 August 2016.

3. Financial Review

3.1 Financial Results

According to the Financial Statements presented, the financial result of the Institution for the year ended 31 December 2015 had resulted in a surplus of Rs.137,311,607 as compared with the corresponding surplus of Rs.91,394,529 for the preceding year, thus indicating an improvement of Rs.45,917,078 in the financial results of the year under review. Even though personal emoluments had increased by a sum of Rs.45,625,518, the increase of the operational income by a sum of Rs.98,035,293 had been the main reason for the improvement of the financial result.

An analysis of the financial results of the year under review and of 04 preceding years, indicated that even though the surplus amounting to Rs.101,032,277 in the year 2011 had decreased up to a sum of Rs.91,394,529 by the year 2014, it had increased to a sum of Rs.137,311,607 by the year 2015. However, in considering personal emoluments, taxes paid to the Government and depreciation on non-current assets, the contribution of the Institution in the year 2011 had continuously improved from a sum of Rs.285,450,558 to a sum of Rs.463,817,651 as at the end of the year under review.

4. Operating Review

4.1 Performance

The objectives of the Institution in terms of Section 3 of the Sri Lanka Standards Institution Act, No.06 of 1984 are,

- Preparing standards on national and international basis, revising, altering and amending from time to time.
- Promoting standardization and quality control in the fields of industry and commerce.
- Making arrangements or providing facilities for the examination of products including food and drugs, commodities and materials, whether they comply with standards of quality or any other written law.
- Making arrangements or providing facilities for testing and calibration of precision instruments, gauges and scientific apparatus and for issuing certificates in regard thereto so as to comply with required standards.
- Providing facilities with regard to standardization and quality control and to research activities and establishing laboratories and libraries.
- Certifying the quality of commodities, materials, produce products and other things whether for local consumption or import.
- Encouraging and promoting of standardization and quality control by educational, consultancy and other means.
- Providing provisions for co-operation with any person, association or organization outside Sri Lanka having objectives similar to those for which the Institution is established.
- Co-ordinating the efforts of producers and users for the improvement of the quality of materials, products, appliances, processes and methods.

The following matters were revealed in the test examination of the progress of the Action Plan prepared for the achievement of the objectives given above.

- (a) Even though it had been targeted to execute 40 National Standards, 35 Programmes on revision and review of Standards and 12 Standards Promotion programmes for formulating national Standards necessary for national economic development, the actual performance had been 17,27 and 2 respectively while the activities not executed had been 23,8 and 10 respectively.
- (b) Even though it was expected to test 425 factories and 100 market samples under the product certification and to issue 10 certificates with the objective of uplifting the quality

assurance of all sectors of the economy, it had not been able to conduct 70 factory checks and 86 sample test checks and action had not been taken to issue any certificates.

- (c) Even though it had been targeted to register 12 foreign manufacturers/ laboratories and to include 2 new goods for the imports test under uplifting the quality assurance of all sectors of the economy, 8 foreign manufacturers/ laboratories had not been registered and no new goods whatsoever had been added for the imports test.
- (d) Even though it was expected to accredit a management system and to issue 5 Vidatha Systems Certifications under systems certification, none of those activities had been executed.
- (e) Promoting standardization and quality control in fields of industry and commerce is a main objective of the Institution and the following observations were made in the audit test check conducted in this regard.

(i) Testing of imported Baby Soap

- A detailed test should be conducted for stocks of 169,443kg out of a stock of 247,111kg of soap imported to this country from a foreign manufacturing company from the year 2013. Instead, only spot tests had been conducted.
- Out of the 6 parameters in the Sri Lanka Standard No.547:2009 2 parameters of Matter insoluble in ethanol, percent by mass, max; and Chlorides, as (NACL) percent by mass, max; had not been tested in any instance whatsoever.

(ii) Issuing of Standard Logos to Bottled Drinking Water manufactured in Sri Lanka

The SLS logo is issued for bottled drinking water manufactured in Sri Lanka under Sri Lanka Standards No.894:2003 and when the valid period of the license ends and the valid period of the license should be extended after conducting audit checks. However, an extension for a period of 6 months had been granted without conducting the relevant audit checks in extending the licensed period of 2 manufacturing institutions.

(iii) Testing of Imported Milk Powder

- Even though 08 parameters for the composition of imported milk powder and 05 parameters for the microbiology test should be tested in terms of Sri Lanka Standard No.731:2008, only ranges between 3 to 5 parameters had been tested and stocks of 2,300,800kg of milk powder valued at US\$ 6,530,430 imported in 25 instances from a foreign manufacturer from January to June 2015 had been released to the market.

- Tests should be conducted as 1 for 3 instances for the stocks which had obtained a compliance certificate from an accepted foreign Government Institution as stated in GL-II-04 Guideline for Standards. However, 4,559,554kg of milk powder valued at US\$ 12,708,609 imported in 33 instances had been released to the market without testing that stock of milk powder even as 1 for 5.

(iv) Testing of Imported Cement

Even though the compression strength of cement should remain between the ranges of 42.5 to 62.5 under the Sri Lanka Standards Specification 107 and even though the compression strength of 43,960,000kg of cement valued at US\$ 2,603,490 imported in 46 instances from the year 2013 to the year 2015 from a foreign manufacturing company had remained at a value less than 42.5, permission had been given by the Institution to release them to the market.

(v) Issuing Standard Certificates for Instant Fruit Drinks manufactured in Sri Lanka

- The report relating to the Benzoic Acid Test for the renewal of the Standard Certificate License of a private manufacturing company had been received on 24 February 2015 after 7 months and the company had failed that test. However, the approval had been given by the Licence Committee held on 18 February 2015 to extend the valid period of the license up to 06 months from December 2014.
- In the renewal of a Licence only for one trade name of a private manufacturing company the licence had been renewed without conducting the test of Arsenic, Cadmium, Lead & Tin, necessary for the Limit for Heavy Metals.

4.2 Management Activities

The following observations are made.

- (a) Even though a licence should be obtained on radioactive sources in terms of paragraph 2 of Part II of the Atomic Energy Authority Act, No.19 of 1969, it was observed that the Institution had been using the portable x- ray equipment purchased for Rs.11,992,960 in the year 2013 for the conduct of radioactive tests of gas cylinders despite not obtaining the required licences even by August 2016.
- (b) Even though a sum of Rs.947,264 had been received from the Ministry in the year 2012 for issuing GMP certificates for Small Scale Industrialists, action had not been taken to wind up the activity even by 31 December of the year under review and a balance , a sum of Rs.750,981 had been saved.

5. Accountability and Good Governance

5.1 Procurement Plan

Objectives expected from the Procurement Plan had not been achieved due to the delay up to the end of the year under review in the execution of 2 procurement activities valued at Rs.3,424,265 planned in the years 2013 and 2014.

5.2 Budgetary Control

Savings ranging from 25 per cent to 100 per cent were observed in 73 items in comparing the budgeted recurrent expenditure and the actual expenditure of 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

Areas of Systems and Controls

Observations

(a) Debtors and Creditors Control	Delay in recovering the debtors balances and not settling the creditors balances.
(b) Payment of Combined Allowance	(i) Not stating the permanent address and the temporary address in the vouchers for claiming the combined allowance and due to that, making payments without considering on the shortest distance to the temporary place of work. (ii) Making payments without examining the accuracy of the bills presented for the payment of combined allowance for the officers of the Metrology Unit.
(c) Conducting Foreign Training Programmes and Seminars.	Not selecting officers by calling applications and subjecting them to an evaluation in selecting officers for Foreign Training Programmes and Seminars.