

## **Measurement Units, Standards and Services Fund - 2017**

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The audit of financial statements of the Measurement Units, Standards and Services FUND for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance and 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 35(5) of the Measurement Unit Standards and Services Act, No. 35 of 1995. My comments and observations on the above financial statements appear in this report .

### **1.2 Management's Responsibility for the Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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**

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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 judgement, including the assessment 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 Institute'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 Institute'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.

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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Measurement Unit Standards and Services FUND as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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##### **Sri Lanka Accounting Sector Accounting Standards 07**

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In terms of section 14 of the standard, any assets should be recognized as an assets if the future economic benefits will flow to the entity only and in terms of section 69 of the standard, depreciation of an asset begins when it is available for use only. But contrary to the above, payment made to purchase of fixed assets amounting to Rs.29,594,800 during the year under review had been accounted as fixed assets even though the assets had not been received to the institute and a sum of Rs.295,276 had been accounted as depreciation.

#### **2.2.2 Accounting Policies**

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Even though it had been disclosed that the depreciation policy of assets of the fund as Reducing Balance Method, but assets had been depreciated on Straight Line Method during the year under review.

#### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) The written down value of property, plant and equipment till 2015 amounting to Rs.885,796,317 and the cost of assets purchased during the years 2016 and 2017 amounting to Rs.154,831,734 had been added together and the total value had been shown as the cost of assets in the financial statements. It was observed that the accurate cost of property, plant and equipment had not been disclosed in the financial statements as at 31 December 2017.
- (b) Adjustment for depreciation of fixed assets till 2015 had been made in assets accounts and opening balances had not been shown in the provisions for depreciation accounts and the depreciation for the year 2016 and 2017 had been carried forward as the balances of those accounts. As such accumulated depreciation as on 31 December 2017 could not be identified in the financial statements.

- (c) Even though Value Added Tax amounting to Rs.8,295,251 paid at the purchased of fixed asset during the year under review had been removed from the assets account and debited to the Value Added Tax Control Account accordingly, but annual depreciation had been calculated on the value including that tax amount and that depreciation amount was Rs.215,754.
- (d) Even though the balance amount of Rs.672,947 had been reimbursed to the fund out of the advance given to the building department for building repairing amounting to Rs.2,198,812 after incurred of expenses Rs.1,525,865, and this had still been shown as unsettled advances in financial statements. Thus, the balance payable to building department as per the Final bill amounted to Rs.633,279 had not been accounted as a liability.

#### **2.2.4 Lack of Documents for Audit**

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Notes of the fixed assets register or detail schedules relevant to the fixed assets purchased valued at Rs.85,549,962 during the year under review was not furnished to the audit.

#### **2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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Even though, all measuring equipments using in the businesses should be verified annually in terms of Section 20 (1)(a) and 37 of the measurement units, standard and services Act No. 35 of 1995 but methodology had not been introduced for confirmation of that all equipment being verified.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operations of the fund for the year under review had resulted in a surplus of Rs.129,971,134 as compared with the corresponding surplus of Rs. 126,413,214 for the preceding year thus indicating an improvement of Rs.3,557,920 in the financial result of the year under review as compared with the preceding year. The above improvement was mainly attributed to the increase in the sealing income and increase in the investment income.

### **4. Operating Review**

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#### **4.1 Performance**

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The following observations are made.

- (a) Checking of Pre packing goods was one of the main activity of the department and in compliance with international covenants on measurement science, the weight and volume of Pre packing good should be checked before selling to the customers. The department of measurement units, standards and services is the responsible institute

in this regard and customers are assured by this method. Even though it was planned to earn a some of Rs.100,000 income by checking pre packed plants during the year under review and included in the Action Plan, but non of packing item had been checked.

- (b) A sum of Rs.30,000,000 had allocated to finalize payment on construction of National Measurement Laboratory opened in 2015 but fixing of new standardized 'HPL' (High Pressure Laminated Boards) had not been completed by removing unstandardized 'HPL' boards even up to end of the year 2017. But total retention money amounting to Rs.36,864,699 had been released to the contractor on the recommendation of the secretary to the Ministry of Finance subject to a bank security in 2018.

#### **4.2 Idle or Under-Utilized Assets**

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In the new laboratory opened on 08 December 2015, costed Rs.768,000,000 could not be used due to harmful gas to human body inside the building. Even though, it was planned to install a new air conditioning system to avoid this harmful gas condition in the year 2016, but the works could not carry out as planned due to legal action in the court and the building without using and remained idle even up to 31 December 2017.

### **5. Accountability and Good Governance**

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#### **5.1 Internal Audit**

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An internal audit on the Funds' activities had not been carried out by the Internal Audit Unit of the Ministry of Industries and Commerce and an Internal Audit for the fund had not been carried out even by the department due to action had not been taken to fill the approval internal Auditor post to the department of Measurement units, Standards and Services during the year under review.

#### **5.2 Procurement Plan**

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The following observations are made.

- (a) Procurement plan, showing the continuation procurements from the previous year and the new procurements separately in accordance with the format stipulated in the National Budget Circular No. 128 of 24 March 2006, had not been prepared.
- (b) Progress of the procurements, planned to implementation in the year under review, had not been furnished to the audit.

**6. Systems and Controls**  
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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Acting Director of the Department from time to time. Special attention is needed in respect of the following areas of control.

<b>Area</b> -----	<b>Observations</b> -----
(a) Accounting	Not attached supporting documents of the Journal to the relevant Journal voucher.
(b) Income and Expenditure Control	No actions had been taken to achieve expected objectives by controlling income and expenditure.
(c) Assets Management	Not updating Fixed Assets Register.