

## Measurement Units Standards and Services Fund – 2020

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statements of Measurement Units Standards and Services Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Section 35 (5) of Measurement Units Standards and Services Act No. 35 of 1995 and Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of Measurement Units Standards and Services Fund as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### 1.2 Basis for Qualified Opinion

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### 1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause the fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit Observations on the preparation of Financial Statements

### 1.5.1 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) The balance of fixed deposit account had been understated by Rs.375,154 and due to errors of balancing accounts, the Value Added Tax account and the examination fee income account had been understated in the financial statements by Rs.374,942 and by Rs.166 respectively.	The audit observation related to the balance of fixed deposit account is accepted as correct. The error will be corrected in the year 2021 through a journal entry. Actions will be taken to correct the VAT control account in the year 2021. The difference in the examination fee income of Rs.166 will be corrected in the year 2021 through a journal entry.	The transactions should be accounted correctly.
(b) Office equipment amounting to Rs. 4,517,706 which were purchased in the year 2020 had been accounted as a purchase made in the year 2019 and the depreciation value for the year under review had been overstated in the financial statements by Rs. 451,770.	The audit observation is accepted as correct. This error will be corrected in the year 2021 through a journal entry.	Purchases of assets should be accounted for within the relevant period and depreciation should be accurately calculated and shown in the financial statements.

(c) The correction had not been made in respect of the consultancy fee for building construction amounting to Rs. 1,662,285 which was shown as an expense in the financial statements of the previous year .	The consultancy fees amounting to Rs.1662,285 paid for the construction of these buildings will be corrected through a journal entry in the year 2021.	Errors made in the financial statements of previous years should be corrected.
(d) Although the expense of Value Added Tax account was Rs.28,208,343, it has been recorded as Rs.27,950,538 in the cash flow statement.	Although Value Added Tax payments was Rs. 28,208,343, according to the Value Added Tax control account in the cash flow statement, it has been Rs. 27,950,538 due to a mistake made in entering the cash flow statement.	The cash flow statement should be prepared correctly.
(e) Payment of accrued expenses related to the year 2019 amounting to Rs. 135,309 had not been recorded in the cash flow statement.	The audit query is accepted as correct.	The cash flow statement should be prepared correctly.

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

Reference to Laws, Rules and Regulations	Non-compliance	Management Comment	Recommendation
(a) Section 20 (1) (a) and 37 of the Measurement Units Standards and Services Act No. 35 of 1995	Although all the measuring instruments used in trade should be verified annually, a proper mechanism had not been established in the Fund in order to ensure that all the instruments are verified .	Measuring instruments used in trade are verified annually by all district offices and a database related to measuring instruments verified by each district office is prepared. Accordingly, the database prepared by all the districts is included in a separate database at the head office. With the Corona pandemic in the country during the	A proper mechanism should be established within the Fund to ensure that all the instruments are verified in accordance with the provisions of the Act.

year 2020 and the year 2021, this database was unable to update properly. Furthermore, as a result, the verification of measuring instruments could not be carried out properly. However, necessary steps to update the database will be taken in the future.

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| (b) F.R. 371 (2) (b) revised by Public Finance Circular No. 03/2015 and PFD / RED / 01/04/2015/01 dated 14th July 2015 | Although action should be taken to settle the ad-hoc sub-impressts as soon as after the completion of the purpose for which it is granted, the fuel advance of Rs. 20,000 given on 7th February 2020 had not been settled even as at 31st December 2020. | This unsettled fuel advance is the fuel advance issued to the District Office of .Kalutara. The officer to whom the advance was issued has been interdicted since November 2020. Therefore, action has not been taken to settle the advance. | Actions should be taken as per provisions of the Circular. |
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**2. Financial Review**  
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**2.1 Financial Results**  
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The operating result of the year under review was a surplus of Rs. 99,436,023 and the corresponding surplus in the preceding year was Rs.117,656,728. Therefore a deterioration of Rs 18,220,705 of the financial result was observed. Decrease of total income of the Fund including stamping income, pattern approval income and interest income, by Rs. 17,535,036 had been main reason for the deterioration in the financial result.

**3. Operating Review**  
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**3.1 Management Inefficiencies**  
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**Audit Issue**  
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A balance in a range from Rs. 219 million to Rs. 426 million had been maintained in the current account of

**Management Comment**  
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Financial management is done by transferring the cash balance of the current account of the Fund to

**Recommendation**  
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The excess balance of the current account should be invested and earn interest

the Fund from January to December in the year under review and it was observed that this balance was a surplus over 80 percent compared to the monthly requirement of the Fund. Although the Fund could have invested this surplus and earned interest income, the management had not paid attention in that connection.

a normal savings account. Accordingly, a balance of Rs. 150 million is currently available in the normal savings account opened on 29 June 2020 and Rs. 2,185,098 has been received as interest as at 25 February 2021.

income for the Fund

#### 4. Accountability and Good Governance

##### 4.1 Audit and Management Committee

Audit Issue	Management Comment	Recommendation
The activities of the Fund had not been reviewed on a continuous basis as the Department had not held audit and management committee meetings as scheduled for the year under review.	Arrangements had been made to hold two audit and management committee meetings in the year 2020 as scheduled. However, the audit and management committee meetings could not be held as gathering of individuals had been restricted due to Corona pandemic in the country .	Audit and management committee meetings should be held as scheduled.