

## Measurement Units Standards and Services Fund - 2021

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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 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of accumulated fund , and 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 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 the Fund as at 31 December 2021, 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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I expressed qualified opinion 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 sub 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 Responsibility 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 skepticism 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 fund's 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 Non Compliance with Sri Lanka Public Sector Accounting Standards**

The following observations are made.

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) According to the Section 47 of standard No. 03, an entity should correct material prior periods errors retrospectively in the first set of financial statements authorized for issue by restating the comparative figures presented for the period in which the error occurred .However,, although adjustments were made to the opening balances of the year under review in implementation of the recommendations made by the Auditor General's report for the year 2020, the comparative figures relating to the previous year had not been restated in the financial statements presented.</p>	<p>The incorrect comparative figures pointed out in the Auditor General's report will be restated.</p>	<p>The standard should be followed.</p>
<p>(b) According to Section 69 of standard No. 07, depreciation of an asset begins when it is returned to its ready-for-use condition, i.e., in a condition and location where it can be operated in the manner desired by management. However, the depreciation value for the year under review amounting to</p>	<p>Necessary actions will be taken to correct the depreciation value.</p>	<p>The standard should be followed.</p>

Rs. 17,399,860 had been overstated due to calculating depreciation for the entire year of purchase of the asset without paying attention to the date of purchase and calculating depreciation for equipment returned to the supplier due to errors when the depreciation for fixed assets is calculated

### 1.5.2 Accounting Deficiencies

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The following observations are made.

Audit Issue -----	Management Comment -----	Recommendation -----
(a) An expense of Rs. 805,657 incurred for a competitive examination related to the previous year had been accounted as an expense of the year under review.	This has been shown as an expenditure in the year under review by a mistake.	Expenditure related to previous year should not be accounted as expenditure of the year under review.
(b) An advance of Rs. 367,010 paid during the year under review for installation of racks in the measurement laboratory and a building repair expense of Rs.43,000 had been accounted as buildings. Accordingly, the balance of the building account for the year under review had been overstated in the financial statements by Rs. 410,010. Also, the cost of installation of racks in the measurement laboratory was shown under investing activities in the cash flow statement, although it could not be considered as an investment activity.	This error will be corrected.	Recurrent expenses should not be capitalized and shown under investing activities in the cash flow statement.
(c) A vehicle repair expense of Rs.123,333 incurred during the year under review had not been accounted.	It will be corrected in the next year.	All expenses incurred during the year under review should be accounted.

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

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The following observations are made.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Section 20 (1) 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 .	Although it was planned to establish a trade data system to ensure that measuring instruments are verified annually, the plans failed under the prevailing epidemic situation. It is also expected to update the data system after the procurement of necessary resources in the year 2022.	Actions should be taken according to the provisions of the Act.
(b) Public Administration Circular No. 2016/30 of 29 December 2016	Although government vehicles are required to undergo a fuel combustion test after a period of 12 months after each fuel inspection or after running a distance of 25,000 km or after a major engine-related overhaul, whichever comes first, 14 vehicles had not been subjected to fuel combustion tests.	These tests will resume once the current fuel issue is resolved.	Actions should be taken according to the provisions of the Circular.

## 1.7 Investment Management

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A balance ranging from Rs. 99 million to Rs. 229 million had been maintained in the current account of the fund for the period from January to December of the year under review and it was observed that this balance was an excess of 51 percent to 97 percent compared to the monthly requirement of the Fund. Although this excess balance could have been effectively invested and earned interest income, the management had not paid attention on the matter.	Funds are periodically transferred from the balance of the current account of the Fund to the savings account and interest income is earned. An interest income of Rs. 5,699,922 had been earned in that manner from the savings account during this year. Further, an excess balance is maintained in the current account as payments are to be made for several purchases that are being procured.	The surplus balance of the current account should be invested effectively and earned interest income for the Fund.

## 2 Financial Review

### 2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 66,445,027 and the corresponding surplus in the preceding year was Rs. 99,436,023. Therefore a deterioration of Rs 32,990,996 of the financial result was observed. Decrease of total income of the Fund by Rs. 8,223,202 and increase of total expenditure by Rs. 24,767,794 had been main reason for the deterioration in the financial result.

## 3 Operating Review

### 3.1 Operating Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The progress of activities of the year under review related to strengthening the institutional framework was only 10 percent.	A lower progress has been shown as a result of inability to implement the productivity plan as planned due to Covid pandemic situation.	Expected progress from planned activities should be achieved.
(b) Although re-verification of the measurement standards used in 12 districts was planned, the task had been carried out in respect of none of the districts.	This task has been started from May 2022 after the Covid pandemic. It may fail due to fuel crisis.	Expected progress from planned activities should be achieved.
(c) Activities to be carried out under the matter of supporting to other NQI Bodies for obtaining an international recognition had not been carried out during the year under review.	A large number of programs had been carried out and are still being carried out.	Expected progress from planned activities should be achieved.

### 3.2 Idle or Underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
According to the Asset Management Circular No. 05/2020 dated 02 October 2020, disposal of vehicles of all government institutions which are not in running condition as per paragraph 02 (a) of the Circular or repairing as per paragraph 02 (b) of the Circular should be completed before December 31, 2020. However, a vehicle owned by the Fund had been removed from running condition over a period of more than 05 years and actions had not been taken as per the Circular.	Disposal of vehicle is in progress.	Actions should be taken as per provisions of the .Circular.

### 3.3 Non-Achievement of Expected Outcome

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The following observations are made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) CCB – 1000 – SL -1Kg Mass Comparator purchased at a cost of Rs.19,468,582 on February 17, 2021 had been returned to the supplier due to defects detected during installation. However, the desired outcome had not been achieved as the relevant equipment had not been received by the Department even up to 25 April 2022,	While going to install the device, the foreign engineer who came to install the device from the manufacturing company identified a defective part of the device and carried it back to the parent company in Germany to be corrected and the payment of 20% LC and performance security of the local agent were not released. Accordingly, the procurement contract related to the equipment has not been properly completed so far by the manufacturing company and the local agent. Accordingly, the two related companies have agreed to correct the identified defects and install the equipment soon.	Expected return for the cost should be achieved.
(b) 50 number of 20 kg–M1 measuring instruments had been purchased from a private company on 31 December 2020 at a cost of Rs. 2,803,032 and, instruments had been returned to the supplier due to defects . However, only 15 corrected instruments had been reissued to the Department and 35 instruments had not been corrected and handed over even up to 25 April 2022. The Department had failed to acquire the instruments promptly and to obtain the expected benefits for the costs incurred in respect of the instruments.	By the time 50 Class M-20kg test weights were delivered, very subtle changes in weigh had occurred as they were scratched due to not being packed properly, Therefore, the said test weights had not been accepted and the local supplier was informed to correct and hand over them again along with the verification certificates. Accordingly, 15 test weights which was verified and the errors were removed have been handed over so far and the local agency has informed that other test weights will be corrected and handed over soon. Accordingly, the desired benefits related to the purchase will be obtained soon.	Expected return for the cost should be achieved.

#### 4 Accountability and Good Governance

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##### 4.1 Budgetary Control

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<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
Although the estimated cost for purchasing Low Range Gas Piston Gauge System (1000 psi) and Data Logger was Rs. 4,200,000, the actual cost incurred for them had been Rs. 27,205,857. Accordingly, the actual cost had been 648 percent of the estimated cost.	Information of the costs related to the purchase of Low Range Gas Piston Gauge System (1000psi), Height Gauge and Data Loggers has been submitted to the audit.	The purchase cost should be accurately estimated.