

**1. Financial Statements**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the Accreditation Board for Conformity Assessment (“Board”) 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 changes in equity 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(1) 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 and Finance Act No.38 of 1971. 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 Board 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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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 Board’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 Board or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board 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 Board.

#### **1.4 Audit Scope**

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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 Company'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 Company'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. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board 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

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>According to section 65 of Public Sector Accounting Standards of Sri Lanka No. 7 the retention value and effective lifetime of an asset have not been reviewed. But, owned by the Board used for operation activities and the effective lifetime of the assets which cost Rs.25,341,128 had not been reviewed in accordance with the Sri Lanka Public Sector Accounting Standards 3 and the changes in the estimates had not been reconciled in the financial statements.</p>	<p>These assets are currently in use and we need to restitution them, as per the query. Also, Rs.25,341,128 mentioned here has included the assets belonging to all the asset categories of the Board. If it is referred to in some way for restitution, all the assets of the Board belonging to all those categories should be restitution. But we have explained several times in the Audit Committees that it will cost a lot of money. It was recommended by the Internal Audit Committee that it is not timely to spend too much in this situation in the country.</p>	<p>Should be done in accordance with the Public Sector Accounting Standards of Sri Lanka.</p>

### 1.5.2 Accounting Deficiencies

Audit observation	Management Comment	Recommendation
<p>(a) Due to improper accounting of depreciation of fixed assets, the write-off value of Property, Plant and Equipment in the year under</p>	<p>I have noted this adjustment to be corrected through a journal entry in the Final Accounts of the Year 2022.</p>	<p>Depreciation Expenses related to assets should be accurately calculated and included in the Financial Statements.</p>

review has overstated by Rs.2,525,760 in the Financial Statements.

- (b) Although the Financial Statements have disclosed that the accounts were prepared on the Accrual Basis, the Board's income was accounted for on the Cash Basis. Because of this, the Rs.10,492,864 had received by the Board for the year 2022 and the Rs.3,585,390 had received for the year 2020 should be adjusted in the accounts as an income for the next year and as an adjustment for the previous year respectively, but they were adjusted in the Financial Statements as an income of the reviewed year. Due to this, the income and surplus of the year under review has shown in the Financial Statements by Rs.14,126,700 more.
- Once an accreditation is granted, it is valid for 3 years and an annual fee is charged each year. But if the Accreditation is not withdrawn by the relevant institution, annual fees will continue to be charged. Because of this, the period is ignored and has been accounted in the Financial Statements for the reviewed year. But I will have taken to action to accounted accordingly like this from the year 2022.
- Revenue and expenses should be properly accounted in the Financial Statements based on the accounting period.
- © As foreign aid, the Board has received 3 technical and laboratory equipment worth Euros 92,465 in 2020 and 2 laboratory equipment worth Euros 155,191 in 2021. The total value of these equipment was Euros 247,656 and has not accounted as assets and foreign aid receipts.
- The Board works as a facility and service provider to improve new and existing accreditation schemes in Sri Lanka. There, the Institute of PTB (Physikalisch Technische Bundesanstalt) records only the clearance expenses in the asset register until the beneficiary of the equipment provided is identified. Arrangements will have been made to transfer some of these assets to some identified institutions in the year 2022.
- In any way assets received by the Board should be properly accounted for and use. Otherwise, it should be transferred immediately to another institution that can be used instead of keeping it in the institution.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.14,524,699 and the corresponding surplus in the preceding year amounted to Rs. 10,283,005. According to that, an improvement amounting to Rs.4,241,694 of the financial result was observed. The revenue of the

year under review increased by Rs.7,069,638 was the main reason for the improvement of surplus.

### 3. Accountability and Good Governance

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#### 3.1 Annual Report

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##### Audit observation

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Although the Annual Report of the Board should be tabled in Parliament 5 months after the end of the financial year in accordance with paragraph 6.6 of the Public Enterprises Circular dated 16 November 2021, the Annual Report for the year 2020 had not been tabled in Parliament as at 01 August 202.

##### Management Comment

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The relevant report has been printed and prepared to be submitted to the Ministry.

##### Recommendation

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Circular provisions should be followed.

#### 3.2 Annual Action Plan

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##### Audit observation

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During the inspection of the progress of the action plan on December 31, 2021, it was observed that among the activities included in the action plan of 2021, 28 activities had not been carried out during the year.

##### Management Comment

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No answers.

##### Recommendation

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The tasks planned to be during the year should be completed.