

Measurement Units, Standards and Services Fund -2019

1.1 Qualified Opinion

The audit of the financial statements of the Measurement Units, Standards and Services Fund (“Fund”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, 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 2019, 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

My opinion is qualified based 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

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.

1.4 Audit Scope (Auditor's Responsibility in Auditing Financial Statements)

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 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. 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 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 performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The audit observations with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under these headings.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Although the comparative information of the previous period along with all the figures reported in the financial statements should be disclosed in terms of the Paragraph 53 of Sri Lanka Public Sector Accounting Standards No.01, the figures of the previous year had not been presented in relation to the figures presented as notes to the financial statements.	It is informed that the necessary arrangements will be made to present the Notes to the financial statements in comparison with the previous year.	Comparative information of the previous period should be disclosed along with all the figures reported in the financial statements.

- (b) Although the Revenue and Expenditure should not be set off as per the Paragraph 48 of Sri Lanka Public Sector Accounting Standards No. 01, the receiving of insurance compensations amounted to Rs. 74,300 had been set off from other contracted service expenses.
- Arrangements will be made to carry out receiving of insurance compensation for vehicle accidents through the deposit account.
- Income and expenses should not be set off and receiving of insurance compensation amounted to Rs. 74,300 should be taken into accounts as income.

1.5.3 Accounting Deficiencies

The following observations are made.

Audit observation	Comments of the Management	Recommendation
<p>(a) Since a sum of Rs. 877,111 had been credited to the expenditure accounts as accrued expenses at the beginning of the year , the expenditure of the year under review had been understated by that amount.</p>	<p>It is accepted that the stating of opening balances (as accrual expenses) of the expenditure accounts is against the Accounting Principles. Actions will be taken to rectify this in preparation of financial statements for the year 2020.</p>	<p>Opening balances should not be stated in expenditure accounts.</p>
<p>(b) Although the revenue payable to the Treasury was Rs.60,544,826 in the statement of financial position, the balance payable according to the ledger account submitted was Rs. 60,450,671. As a result, the value of liabilities amounted to Rs. 94,155 had been overstated.</p>	<p>This difference of Rs.94,155 is remaining within the balance as at 01 January 2019 and actions will be taken to examine and rectify that difference.</p>	<p>The liability amount of the financial statements should be stated accurately.</p>
<p>(c) Since the opening balances of the depreciation accounts had not been recorded as a result of depreciation adjustment for fixed assets up to the year 2015 was done in the asset account itself, the value shown</p>	<p>It is informed that the required corrections will be made in preparation of the financial statements 2020 examining in this regard.</p>	<p>The accurate accumulated depreciation value should be stated in the financial statements.</p>

in the financial statements as accumulated depreciation as at 31 December 2019 was inaccurate.

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| <p>(d) Investment income had been understated by Rs.96,171 in the financial statements.</p> | <p>It is informed that the necessary adjustments will be made examining the actual interest received.</p> | <p>Accurate investment incomes should be stated in the financial statements.</p> |
| <p>(e) As a result of the office equipment which was purchased during the year under review amounted to Rs.263,819 was completely depreciated in that year, the depreciation provisions and the depreciation amounting to Rs.237,437 had been overstated in the financial statements.</p> | <p>It is informed that this error will be corrected in the financial statements of the year 2020.</p> | <p>The accurate depreciation value should be stated in the financial statements.</p> |
| <p>(f) As a result of the expenditures made in advance in the previous year amounting to Rs.600,899 were not taken into accounts as expenditures of the year under review in the financial statements, the expenditures had been understated by that amount.</p> | <p>Expenditures made in advance as at 31 December in the preceding year was Rs.600,899. Although this has been credited to the relevant account, it has been impossible to debit to the relevant expenditure account. Actions will be taken to correct that error.</p> | <p>Expenditures made in advance shown in the financial statements of the preceding year should be taken into accounts as expenditure for the year under review.</p> |
| <p>(g) As a result of the addition errors in the ledger accounts in relation with 04 expenditure accounts, the total expenditure amounted to Rs. 77,112 had been overstated .</p> | <p>It is informed that, this error will be corrected in the financial statements in future.</p> | <p>The total of the ledger accounts should be stated accurately.</p> |
| <p>(h) Capital purchases amounted to Rs.10,348,640 had been taken into accounts as a recurrent expenditure in the year under review.</p> | <p>The error will be corrected in the financial statements of this year.</p> | <p>Capital expenditures should not be taken into accounts as recurrent expenditures.</p> |

- (i) The fixed deposit interest receivable amounted to Rs.208,044 had been understated in the financial statements. It is informed that the difference will be adjusted in the year 2020. The accurate fixed deposit interest receivable should be stated in the financial statements.

1.5.4 Unreconciled Control Accounts or Records

The following observations are made.

Object	Value as per Financial Statements	Value According to Corresponding Records	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
(a) Fuel and lubricant Expenses	209,854	289,854	80,000	The accrued fuel and lubricants as at 31 December 2019 was Rs. 289,854 and it was erroneously recorded as Rs. 209,854 in the fuel and lubricant account. Actions will be taken to correct that error.	The value of the expenditure on fuel and lubricant should be stated accurately in the financial statements.
(b) Income from stamping, travelling expenses and overtime allowances	253,216,548	253,169,409	47,139	The balance of income from stamping, travelling expenses and overtime allowances were accurate as per the ledger and it is stated that	The accurate income from stamping, travelling expenses and allowances should be stated in the financial statements.

those values have changed by a mistake while copying to the trial balance.

(c)	Transfers from income from stamping to the revenue account payable to the Treasury	118,057,633	118,278,216	220,583	<p>The stamping revenue of each month was computed as per the revenue reports send relating to the stamping revenue collection by the Inspectors of Measurement Service and Devices with regard to each month. But, later on certain changes are identified by depositing those incomes in banks and checking those income records and accordingly, steps have been taken to correct those changes. However, it is informed that the actions have not been taken to return 1/3 of the income so</p>	<p>The accurate values should be transferred to the revenue account payable to the Treasury from the income from stamping and shown in the financial statements.</p>
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				identified there to the Treasury.		
(d)	Transfers from other income except for income from stamping to the Revenue Account payable to the Treasury	2,832,719	2,107,197	725,522	In addition to the relevant fee for equipment calibration and model approval, the charges for fuel and travelling expenses of the officers are also being charged from the relevant agencies. A portion of 2/3 of that fuel and travelling expenses were credited to the relevant fuel and travelling expenses accounts and the remaining 1/3 has been credited to the 1/3 payable account of the Treasury.	Transferring the accurate values from other income to the income account payable to the Treasury, except the stamping income, should be shown in the financial statements.
(e)	Stated in the cash flow statement					
(i)	Revenue Receipts	341,580	228,720	112,860	Arrangements will be made to correct it.	The value of income received in the cash flow statement should be in line with the value stated in the cash book.

(ii) Other Income	104,482	92,537	11,945	Necessary steps will be taken to examine the difference of Rs. 11,945 in other income in the cash flow statement and to rectify it.	The other income value stated in the cash flow statement should be in line with the value stated in the cash book.
(iii) Recurrent Expenditure	80,162,905	81,746,959	1,584,054	It is accept that there is a difference of Rs.1,584,054 as per the recurrent expenditure and the cash book according to the cash flow statement. It is informed that such errors will be corrected in the preparation of the financial statement 2020.	The value of recurrent expenditure stated in the cash flow statement should be in line with the value stated in the cash book.
(iv) Human Resource Development Expenditure	1,661,865	1,515,982	145,883	It is accepted that there is a difference of Rs.145,883 in the human resource development expenditure. Human resource development expenditure as per the cash	The value of human resource development expenditure stated in the cash flow statement should be in line with the value stated in the cash book.

book was Rs.1,515,982 and it is informed that it should be stated in the cash flow statement.

(v)	Receipt of fixed deposit interest	44,919,284	44,876,284	43,000	It is informed that the difference will be adjusted in the year 2020.	The value of fixed deposit interest receipts stated in the cash flow statement should be in line with the value stated in the cash book.
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1.5.5 Lack of Written Evidence for Audit

The following observations are made.

Object	Amount	Audit Evidences Unavailable	Comments of the Management	Recommendation	
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	Rs.				
(a)	Fixed Assets	200,201,485	Detailed schedules	A detailed schedule for this will be prepared and submitted to the audit.	Detailed schedules required to confirm the fixed asset balance amounting to Rs.200,201,485 should be submitted to the audit.
(b)	Depreciation of Fixed Assets.	59,649,906	Detailed schedules	A detailed schedule for this will be prepared and submitted to the audit.	Detailed schedules required to confirm depreciation of fixed assets amounted to Rs.59,649,906 should be submitted to the auditor.

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

References to Laws, Rules, Regulations, etc.	Non-compliance	Comments of the Management	Recommendation
Section 20 (1) (a) and 37 of the Measurement Units Standards and Services Act No. 35 of 1995	Although all the measuring equipment used in trade should be verified annually, a proper mechanism of ensuring that all such equipment is verified so had not been established within the Fund.	The activities of preparation of an information system were carried out by preparing required plans and data in collaboration with the Department of Census during the period 2017 - 2019 in this regard. However, The Department of Census and Statistics announced that this could not be carried out in the year 2019 .	A proper mechanism for annual verification of all measuring equipment used in trade should be established within the Fund.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs.117,656,729 and the corresponding surplus in the preceding year was Rs.117,075,486. Accordingly, a growth of Rs.581,243 in financial result was observed. The decrease in depreciation of property, plant and equipment, maintenance expenses, contributions and membership fees in the year under review had mainly attributed to this growth as compared to the preceding year.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A balance ranging in between Rs.194 million to Rs.365 million from January to December in the year under review had been maintained in the current account and the Fund a balance of had been maintained and it was observed that this balance was an excess cash balance for more than 85 per cent as compared to the monthly requirement of the Fund. The Management had not drawn attention on investing this excess balance and earning of interest income.	The necessary arrangements are being made to open a general savings account and transfer the balance in the current account of the Fund to that account and to identify the monthly expenditure requirement and to invest the remaining excess money in fixed deposits. It is informed that the investments will be made and the relevant evidences will be submitted to audit.	The Management should focus on investing of the excess cash balance and earning of interest income.

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| <p>(b) Even though number of units verified by District Officers and the details of the fees charged in this regard were reported to the Fund by those officers, the Fund had not had a database to verify their accuracy or proper methodologies.</p> | <p>The revenue reports related to the fees charged for verification are forwarded to the Department on a monthly basis through the Officer in Charge of the District Measurement Units Standards and Services Division and checks the accuracy by Accounts Division of the Department and taken into accounts. In preparation of bank reconciliations, it is checked whether the money earned is properly deposited in the bank.</p> | <p>A database or appropriate methodologies should be established to verify the accuracy of the number of units verified by the District Officers and the fees charged in this regard.</p> |
| <p>(c) A number of 600 registration licenses had been targeted to be issued during the year 2019 for the weighing and measuring equipment and the users such as manufacturers, merchants, importers and repairers and 548 licenses had been issued.</p> | <p>Although it had been to targeted to issue 600 registration licenses for the weighing and measuring equipment and the users such as manufacturers, merchants, importers, repairers, it is informed that the number of applications received for the registration were only 548.</p> | <p>Action should be taken to earn targeted income.</p> |
| <p>(d) A number of 22,165 forge measurement raids had been carried out during the year under review and the number of successful raids was 1514. A sum of Rs.2,855,350 had been earned as fines. Further, raids were not carried out in Mullaitivu and Mannar Districts.</p> | <p>Priority was given only to awareness programmes in Mullaitivu and Mannar Districts and some awareness campaigns have been carried out as raids. It is informed that 02 raids are being carried out in these Districts from this year. The successful raids which means that raids carrying out with forge measurements and fines levied. It is informed that the all raids carried out were not successful raids.</p> | <p>Raids should be carried out in all Districts.</p> |

3.2 Delays in Project and Capital Works

Although Rs.995 million has been allocated during the year under review to install the air conditioning system in the new laboratory, those works had not been commenced even by 25 May 2020 .

4. Accountability and Good Governance

4.1 Audit Committees

Audit Observation	Comments of the Management	Recommendation
----- Since the Audit Committees had not been established for the year under review and Audit Committee meetings were not held by the Department, the activities of the Fund had not been reviewed on a continuous basis.	----- An Internal Auditor has been appointed to this Department on 01 September 2019. Until then, the post of Internal Auditor in this Department was in vacant. The Internal Auditor acts as the Convener of the Audit and Management Committee Meetings and although the Audit and Management Committee meeting has been scheduled to be held in the first quarter of the year 2020 it is informed that it could not be held due to the corona epidemic. The first meeting of the Audit and Management Committee for the year 2020 is scheduled to be held on 14 July 2020 .	----- The Audit Committees should be established and the activities of the Fund should be reviewed on continuous basis.

4.2 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
----- Since there were savings in provisions as 45, 66, 68, 97, 83 and 60 per cents in stationery, contributions and membership fees, machine repairs, plant and machineries, building constructions, knowledge development and institutional development	----- The Budget Estimates for the year under review is prepared in the previous year and the provisions may not be sufficient for certain expenses during the year under review and therefore, it is informed that the Budget Estimates will be revised.	----- Expenditures of the Fund should be properly managed.

respectively when comparing the estimated expenditure with the actual expenditure, weaknesses in the management of expenses of the Fund were observed.