

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Standards Institution for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, 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

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

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 Institution’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 Commission.

1.4 Audit Scope

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
(a) According to the model framework 17 issued by the Chartered Accountant Institute, the impact on economic resources through transactions and events arising from an accounting instability should be recognized in the period in which the relevant impact occurred, not in the period of financial receipts and payments. On the contrary, the institution has related to the years from 2017 to 2020 Rs.28,930,236 was shown as income for the year 2021 without adjustment to accumulated profit, the income of the year under review was overstated in the accounts. Also, due to the fact that the period related to the income has not specifically identified, it was also observed during the sample inspection that it was not	Unrecognized deposits relating to the period 2017 to 2020 have been accounted for as income for the year 2021. It has been delayed due to the time taken to identify the required information. Please note that this issue will be resolved in the near future as a new accounting package has been introduced in July 2022 due to the time taken to identify the required information.	Since the accounts should be kept according to the accrual basis, only the income and expenses related to the year should be taken into account in the calculation of profit or loss. An appropriate internal and accounting system should be prepared so that the income and expenses related to the year can be identified clearly and accurately.

possible to match the income in accordance with the respective years.

- (b) According to Sri Lanka Accounting Standards No.02, the stock should be shown to the lower value out of values of cost and net realized value, but the stock of equipment and tools of the Institution Rs.1,511,063 as on December 31, 2021 was recorded based on cost. As these implements and tools were not cataloged and board of survey has not carried out, their existence could not be verified during the audit.
- As has been the case since the institution's inception, tooling and equipment inventory prices are valued using the first-in, first-out method. However, verification of these tools and equipment has been done under the 2021 survey board conducted in May 2022.
- According to the Accounting Standards, action should be taken to show to the lower value out of the values of cost and net realized value.
- © According to Section 37 of Sri Lanka Accounting Standard No. 16, property, plant and equipment must be grouped based on the similar nature and use of those assets. But depreciation has done under 02 different rates. That is, office equipment with a depreciation rate of 10 percent and computer printers and mobile phones with depreciation rate of 20 percent. It has observed that the 02 categories were represented in the final financial statement under office equipment in property, plant and equipment and depreciation was calculated correctly.
- Telephones, computers and printers are declared under the same ledger account but the fixed asset register is maintained separately for each item showing individual values and depreciation of each item. Depreciation calculation is based on fixed asset book values.
- According to Sri Lanka Accounting Standards, the grouping of property, plant and equipment should be based on the similar nature and use of the assets.
- (d) According to Section 51 of Sri Lanka Accounting Standards No. 16, the residual value and useful life of an asset must be reviewed at least at the end of
- The administrative department was briefed about the audit process to be carried out in respect of fully depreciated assets other than vehicles.
- As per Sri Lankan accounting standards, the assets in use should be reassessed or revised.

each annual reporting period, but the entity has not reasonably estimated the useful life of the asset. The cost of zero capacitance is Rs.620,306,802 assets were observed to be in use beyond that. For this reason, depreciation was not calculated for those assets and the surplus in the year of conversion was overstated by that amount.

Vehicles has been revalued and reflected in the final accounts.

- (e) In accordance with Sri Lanka Accounting Standards No. 39, the debtor balances should be shown in the financial statements at their amortized value. As on December 31 of the year under review, no impairment test was carried out for 354 debtor balances amounting to Rs.32,760,484 for more than 08 years. Also, the institution had not taken satisfactory measures to collect these debtor balances.

Requesting letters have been sent for outstanding loans. Out of which, from 18 debtors, Rs.707,496 has been collected. Further, arrangements have been made to start individual files for debtors in each division. Steps are taken to carry out depreciation tests for the remaining debtor balances.

Action should be taken in accordance with the Sri Lanka Accounting Standards.

1.5.2 Accounting deficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) After adjusting the unrecognized credits amounting to Rs.21,467,694 to the bank reconciliation statement prepared on the last day of the year under review, the balance was obtained according to the cash book and the detailed notes of the value of the unrecognized credits were not submitted to the audit. It has observed that there are 23,158,472 rupees of unrecognized credits from the	In this regard, the chairman and heads of departments participated in a long discussion and sought the cooperation of all departments to identify the unidentified direct deposits and a process was introduced to send the necessary information from the departments to the account department without delay.	In order to fulfill the objectives of preparing a bank reconciliation statement, the bank reconciliation statement should be prepared and submitted accurately and clearly and including the necessary details.

year 2018 to the year 2021 due to the existing internal control weaknesses in the existing system for identifying and accounting the income received directly to the bank.

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| (b) | As on December 31, 2021, the institution has Rs.6,826,312 worth of software exists and the depreciation rate at which the software is depreciated was not disclosed in the financial statements. | Depreciation rate of computer software is 10 percent and it is set to show in the next financial year (2022). | Financial statements should be prepared by including necessary information. |
| © | According to the Institute's account statements, the balance of \$22,820 in the Institute's account on 31/12/2021 is Rs.4,511,375 and the exchange rate of 1 USD on that day was taken as Rs.197. But due to the dollar exchange rate of Rs.202 on that day, the value of the dollar account was Rs.119,059 were understated. | Dollar accounts are maintained at the daily dollar conversion rate and each transaction is accounted for at that rate. Dollar accounts are maintained at the daily dollar conversion rate and each transaction is accounted for at that rate. | As per clause 23 of LKAS 21 the foreign currency balance should be converted at the exchange rate prevailing on the period end date. |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
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(a) The total value of other debtor balances has Rs.1,076,419. The institution had not taken any action to recover the 3 debtor balances of Rs. 727,791 for more than 4 years.	A requesting letter has been sent regarding the amount due from the Consumer Affairs Authority. The other two balances due from Allianz Insurance and Insurance Corporation Limited have been rejected due to expiry of time. I will get the approval of the council and proceed to deduct these from the accounts.	Actions should be taken to recover or settle the receivables amounts.
(b) The institution had not taken any action to settle the	The directors were informed to settle the unpaid advances of	Actions should be taken immediate to recover the

balance of Rs.416,052.32 their divisions. which had been given to 08 private institutions from 2015 to 2021.

receivables amounts from private institutions.

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

References to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Paragraph 3.4.3 of the Government Procurement Guidelines	A list should be prepared containing the names of the suppliers who are able to supply goods and services of special categories like stationery, electrical items, motor vehicle upgrades, periodicals and publications and that the scope of procurement in the case of procurement underprice matching system should be limited only to the establishments mentioned in the list. The agency had not registered the suppliers for the electrical items despite the directives. Also, although it is stated that the list of registered suppliers should be updated at least once a year, the document maintained by the Standards Institute was related to the year 2019 and was not updated until February 15, 2022, which was the date of the audit.	The list of suppliers of 2019 and the list of suppliers mentioned in the telephone directory have been used in making purchases in 2020 and 2021. The registration of suppliers for the year 2022 has started and the supplier list is currently being completed.	The provisions mentioned in the procurement guidelines should be followed.
(b) Paragraph 4.1 of State Business Circular No. 1/2015 dated 25 May 2015 and Regulation No. 780 of the Code of Monetary Regulations	While providing group transportation facilities, the cost should also be taken care of and group transportation should be provided by reserve vehicles, contrary to those regulations, 09 vehicles have been deployed by a private company that provides cab services (Cab service) to	These vehicles were used for several months to transport mid-level officers and all other staff in groups during the Corona pandemic. Please note that although the cost of transportation has been increased, the organization	Rules and regulations should be followed

transport 80 mid-level officials and for that purpose on June 15, 2020 Rs.36,593,576 had been paid to the relevant private institution from the date of audit in April 2022.

has been able to maintain its service efficiency at an optimal level by transporting all the staff in a hygienic manner for daily work.

2. Financial Review

2.1 Financial Result

The operating result for the year under review amounted to a surplus of Rs.56,623,886 and the corresponding surplus in the preceding year amounted to Rs.69,969,182. Therefore an deterioration amounting to Rs.13,345,296 of the financial result was observed. The reasons for the deterioration are mainly due to the increase in operating income by Rs.106,375,031 but, increase in operating expenses by Rs.118,392,315.

3. Operational Review

3.1 Identified Losses

Audit Issue -----	Management Comment -----	Recommendation -----
During the inspection of the stock verification report including the recorded stock quantities and physical stock quantities of the institution, stock items worth Rs.694,140 were not recorded in the books and worth Rs.758,442 a shortage of stock items was also observed.	A new accounting package has now been introduced which also covers stock control so that such variations will be minimized in future.	Proper internal controls should be applied to inventory.

3.2 Operational Inefficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
(a) In terms of Sections 3 (a) and (h) of the Sri Lanka Standards Institutions Act No. 6 of 1984 to promote and ensure the status of standards issued on a national and international basis in respect of design trade materials, manufacturing materials, practice processes are purpose of the Sri Lanka	During the last year, the institute had to face limitations such as increasing the market price of the products while taking and testing the market samples, having to test at the manufacturer's premises and not being available from the market frequently, being limited to certain areas/regions and being manufactured only for selected	By conducting sufficient market tests, the customer should be assured that the products with the SLS logo are of the same quality and thereby improve the customer's confidence in the SLS logo.

Standards institution. Accordingly, when a license for the use of the SLS logo is issued, the conformity of the product to the relevant Sri Lankan standard must be verified by sampling the product from the open market to verify compliance with the specifications, satisfactorily operating the quality system and verifying compliance with the license conditions. However, the number of market inspections carried out by the institute during the last 5 years was very low between 3.3 percent and 6.2 percent compared to the number of products that received the Sri Lanka Standard Certificate logo.

buyers. As a result, it is planned to increase the number of samples taken in the future.

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| <p>(b) The imported consignments had been rejected due to non-conformance to expected standards during sample testing. Document inspection revealed 27 instances in which a period of time between 34 and 256 days had elapsed between the receipt of bulk samples and the issuance of rejection letters in respect of the collected 1,196,940 kg.</p> | <p>During the reporting period, the rejection letters had been requested to be delayed as importers were holding several meetings with higher authorities to discuss the issue of arsenic in canned fish. Consignments of canned fish received after 15-09-2020 are held at the RCT yard and are not released to the importers warehouse and have no opportunity to be released to the domestic market before being recommended for approval or rejection.</p> | <p>Further work to be done on the rejected goods should be completed promptly in conjunction with other related agencies.</p> |
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3.3 Transactions of Contentious Nature

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
<p>(a) According to the recruitment procedure of the institution, as on 31st December 2021, the number of approved staff and 44 actual staff for the primary service unit was 65 and the</p>	<p>In the beginning, the approval of the General Board was obtained for this, but the records of that have not been found so far. Due to this, it is expected to submit the matter to the General Board and get approval.</p>	<p>Employees cannot be recruited exceed the approved number of employees. If additional employees are required, the</p>

number of vacancies was 21. Although the number of vacancies in the primary block was 21, employees had been hired without proper approval from a private company for office support services, exceeding the approved number of employees. Also, for the number of 40 to 50 employees recruited in the year under review, and the total value is Rs.8,284,029 had been paid.

- (b) According to 1.1.4 of the guide on the inspection of imported goods when importing pasta and noodles, before receiving the goods inspection reports, if the goods are released from the importer to the warehouse, a personal guarantee certificate should have been obtained from the importer, but it was not done accordingly. Also, 671,160 kg of canned fish and 402,486 kg of noodles and pasta were released to the importer's warehouses before receiving the inspection results of the imported goods. Thus, it has observed that there is a risk of these goods being released to the market before the test results of the goods are released.
- Pasta and noodles are imported under 5 varieties and samples of each lot are taken at the RCT yard. Due to high delay costs incurred at the port and RCT, the consignments are released to the importer's warehouse after sampling with a stamp depicting the status of "Not Allowed for Sale". In some cases, the clearing agents submit letters of guarantee to the RCT office, but this is not essential as per the current import inspection procedure. Kindly note that these items are low risk products and therefore no rejections have been observed in the last 10 years.
- Guidelines on Corporate Goods Inspection should be followed. Corporate policies should be designed and implemented in such a way that the goals of the standards organization towards providing quality products to the customers are fulfilled.
- © In the performance of government works and services, the organization should be careful to perform them sparingly and efficiently and contract to minimize the cost, but the institution did not comply with it and had contracted with two suppliers to get two vans on rental basis
- Since the 1980s, taxis have been procured in accordance with the government's financial regulations and procurement guidelines, and for this purpose, an earlier approval obtained during a board session in the year 1987 has been mentioned, and it is difficult to find an original copy of that report. New matters will be presented to the next general
- Government rules and regulations imposed from time to time shall be adhered to in the fulfillment of corporate objectives. It should be economical and efficient in costing. In order to ensure that the

without the approval of the governing body for transportation. Sri Lanka Standards Institute had 06 drivable vans, 03 cabs and 03 cars and these two vans were used for long distance travel and for a period of 07 months in the year under review Rs.3,629,670 had been incurred. It was also observed that an amount of Rs.144,806 was overpaid for one vehicle in the payment of total for the month of June 2021.

board meeting and arrangements will be made to get approval. At present, the company has a minimum number of vehicles and drivers and it is not allowed to buy new vehicles. Based on the situation of Covid-19 Pandemic, the government had earlier instructed to provide transportation facilities to all the employees who are called to work.

payments are correct, the relevant officials should compare the composition of the expenses with the relevant documents and records.

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
A three-storied building in Colombo to run a laboratory of the Sri Lanka Standards Institute was acquired on a lease basis for a period of 02 years from September 1, 2021 to August 31, 2023 for the payment of Rs.950,000 per month and the provisions of the Government Procurement Guidelines has not followed.	On 2021-02-03 tenders were invited to lease the above building through a newspaper advertisement and tenders were opened by a procurement committee and the building was acquired on a monthly lease basis after obtaining council approval.	Procurement guidelines should be followed in procurement.

3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
Public Administration Circular No. EST-4/2/REM/01/9 dated February 20, 2018 regarding re-enlistment of retired officers is not applicable to public corporations. But Is the age outside the recruitment procedure of the institution, a retired civil service officer of over 60 was recruited for the post of Director (Administration) for a period of one year. As per Paragraph 03 of the Management Services Circular 02/2020, after each recruitment/ vacancy filling, the	This recruitment has done with the approval of the General Assembly and the approval of the Ministry Secretary. The Department of Management Services has not been notified as this is not a permanent appointment. But since the subsequent recruitments have been reported to the Management Services Department, the information reporting will be done correctly in future recruitments as well. Since a representative of the	All recruitment of employees should be done as per the recruitment procedure and with the approval of the General Board and other relevant circular provisions.

related details must be submitted to the Management Services Directory and the National Budget Department. But, this recruitment was not done accordingly. Also, according to 9.10 of Public Business Circular No. 12 dated June 02, 2003, the approval of the Secretary of the Treasury was to be obtained for the recruitments made on contract, casual or otherwise, but the relevant approval was not obtained for this recruitment.

Treasury is a member of the General Assembly, this recruitment has not been reported to the Treasury but has been presented to the General Assembly. Furthermore, in terms of Section 26 (1) of Section 03 of the Sri Lanka Standards Institute Act No. 06 of 1994, the General Board of the Standards Institute has been empowered to appoint any officers and employees necessary to fulfill the objectives of the institute. It is not mentioned that recruitment should be done according to its recruitment procedure. However, according to the circulars that came later, the recruitment was done in accordance with the recruitment procedure. But as always the Act of the Institute of Standards is more powerful than the circulars, henceforth recruitment can be done as per the Act. Accordingly, the General board is the appointing authority for all posts except the Director General. Also, as explained above, that section of the Act has not been changed, so it is still valid.