

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Standards Institution (“Institution”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in funds 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 Institution as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka 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 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 Institution’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 Institution 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 Institution 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 Institution.

1.4 Audit's Responsibilities for the Audit of the 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 Institution'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 Institution'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 Institution 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 Institution, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institution has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Institution has performed according to its powers, functions and duties; and
- Whether the resources of the Institution 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 Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) In compliance with Section 17 of the formal framework established by the Institute of Chartered Accountants of Sri Lanka and following the accrued concept, the income received during the reporting year for the years 2019, 2020, 2021, and 2023 has not been adjusted in relation to those respective years. As a result, the income for the year under review was overstated by Rs.36,173,790 in the financial statements.	Although it was received in the year 2022, the absence of income information for the years 2019 to 2021 has prevented the inclusion of accounts within the relevant time limits. The income from the previous year cannot be accessed in SLSI's accounting system, and the VAT cannot be reclaimed. Every sector has been instructed to ensure timely collection of revenue.	In accordance with accounting principles, all income should be recorded in the relevant period.
(b) According to Section 37 of Sri Lanka Accounting Standard No. 16, office equipment, telephones, and computer equipment were depreciated under two different rates of 10 percent and 20 percent, without accurately identifying the asset class, as they were included in the office equipment class. However, the depreciation rate for telephones and computer equipment was not disclosed in the accounts.	Computers, telephones, and printers are categorized under office equipment but are separately listed in the fixed assets register. Starting from the next accounting year, I will present the costs of computers, telephones, and printers separately in the final accounts.	All relevant factors must be taken into account when determining depreciation rates.
(c) The Institute revalued the buildings at Rs.363,359,000 in the year under review. However, in accordance with Section 77 of Sri Lanka Accounting Standard	All the information related to re-evaluation will be disclosed according to LKAS 16 in the next financial year.	Requisite disclosures should accompany the financial statements in accordance with accounting standards.

No. 16, the necessary disclosures were not made in the financial statements when the property, plant, and equipment items were stated at recoverable amounts.

- (d) Contrary to Sri Lanka Accounting Standard No. 39, an impairment test was not conducted for 222 debtor balances amounting to Rs.19,840,443. These balances had existed for more than 8 years as of December 31 of the year under review and were reported at their carrying value.
- All necessary arrangements have been made for the recovery of all outstanding debts. Entries have been posted for all debtor balances. Impairment testing is scheduled to be conducted next year.
- As per accounting standards debtor balances should be reported at amortized value.

1.5.2 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
The total value of Rs.12,848,047 from debtors existing for more than 8 years has been debited to the Income and Expenditure account through journal entries and written off without proper approvals.	This has not been written off without formal consent. This value is transferred from the revenue account to the debit account until the customer pays.	Specific approval should be obtained for the write-off of receivables.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Section 01 of the Ministry of Finance Circular No. PED 01/2022 dated 18 January 2022.	Officers recruited on a training basis are not eligible to claim a Rs.5,000 allowance. A total stipend value of Rs.1,202,545 was paid to graduate trainees at Rs.5,000 each from April to September of the year under review.	Due to the economic recession in the country, the stipend paid to government employees was also extended to trainee graduates. As the audit report raised questions about this allowance, it has been discontinued since August 2022.	Attention should be given to the relevant circular provisions when disbursing allowances.

1.7 Cash Management

Audit Issue	Management Comment	Recommendation
According to the December 2022 Bank Reconciliation Statement, the total value of unrecognized deposits is Rs. 13,675,085. Among those deposits, the value of unidentified deposits from the years 2020 and 2021 is Rs. 2,790,484. Furthermore, those values had not been recognized even by the end of 2022.	This issue has arisen because clients make direct bank deposits, and the finance department does not receive the corresponding information. To prevent this situation, additional employees will be engaged and assistance will be sought out from the bank to identify the unidentified deposits.	Action should be taken to identify unidentified deposits.

1.8 IT General Controls

Audit Issue	Management Comment	Recommendation
During the computerization of vouchers by the institution, all vouchers were initially accounted for as creditors before being recorded in the relevant accounts. Also, the same value and narration were printed on the voucher multiple times. As such matters have been problematic in the institution for a long time, the institute spent Rs.2,800,000 to implement the BUSY Software package, apply to the accounts department from September 2022. However, by 30 June 2023, the above conditions remained uncorrected.	No answers were provided.	The installed computer application should be utilized as soon as possible, and any necessary corrections should be implemented.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.184,081,575 and the corresponding surplus in the preceding year amounted to Rs.56,623,886. Therefore an improvement amounting to Rs.127,457,689 of the financial result was observed. The reasons for the improvement are an increase in other operating expenses by Rs. 101,303,780 and personnel emoluments by Rs. 15,018,419, respectively. Additionally, operating income increased by Rs. 172,730,740, and financial income increased by Rs.105,008,355.

3. Operational Review
3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
(a) As per section 1.1.4 of the Import Inspection Guide, when there is a practical difficulty in sampling at the port premises, and the inspection report is not available promptly, permission may be granted to release the imported stock to the importer's warehouse. This release is based on the past performance of the importer and manufacturer, along with the submission of the importer's personal guarantee letter. However, in 58 cases, a total of 10,986,250 kg of sugar was released to the importer's warehouse before obtaining personal guarantee letters from the importer and prior to receiving the inspection reports.	White sugar is considered a low-risk commodity, as there are no recorded test failures other than in color. Color variations are not harmful to health. Therefore, the Sri Lanka Standards Institute grants permission to sell sugar after obtaining bulk samples. Hence, no letter of guarantee is required.	Actions should be taken in accordance with the guidelines.
(b) In the case of 5 instances involving electric fans and heating stoves imported by the importer, when inspection reports failed, re-sampling should have been promptly conducted. However, 04 months had passed since the date of the original inspection report. Additionally, it took a year and 04 months to make recommendations to replace unusable electric fan stocks, 07 months on two occasions to make recommendations regarding imported stocks, and 05 weeks to obtain samples. In some instances, stock had been released to the importer's warehouse before sampling.	This situation has arisen due to several factors. These include the extension of the time allotted for sample collection at the verbal request of the importer, insufficient staffing in the laboratories, the importer's lack of preparation for re-sampling, and the fact that some test failures were not deemed severe. Additionally, the shortage of transportation facilities, exacerbated by the fuel crisis in the country, has contributed to the challenges faced in this context. In the future, it has been decided that only written requests for extensions of dates for re-sampling will be considered. Furthermore, for non-severe test	To fulfill the purpose of the Act, the rules and guidelines should be adhered to efficiently.

failures, approvals will be granted via a warning letter.

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
Without obtaining the approval of the Department of Management Services and the Secretary of the Ministry, the Sri Lanka Standards Institute recruited 40 graduates, exceeding the approved cadre under the junior management category, for training. In August 2022, has been paid for them Rs.1,478,932.	The taking of the service of graduate trainees is not included on any basis in the permanent recruitment outlined in the Establishment Code. This service is available on a training basis. According to the requirements of the laboratory and other departments, the institute has enlisted the services of graduates, and approval from the general body has been obtained for the same.	Recruitment should be conducted for a specific duration to meet training requirements, and it should be done impartially to ensure that everyone has an equal opportunity. Also care should be taken regarding the approved staff size and number of vacancies as a substantial amount is paid as allowance.