

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Standards Institution for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Institution 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 (SLAS). 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 intends 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 Sub-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 Scope of Audit (Auditor'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 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 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 Institute 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 Financial Statements

1.5.1 Non-compliances with Sri Lanka Accounting Standards

	Non-compliances with reference to the relevant standard	Comment of the Management	Recommendation
a)	In terms of OB 17 of the structural frame issued by the Institute of Chartered Accountants of Sri Lanka, the effect take place to the economic resources through the transactions and incidents arisen in some accounting entity should be identified in the time period which the relevant effect occurred but not in the time period which the financial receipts and payments occurred. However, fees income amounted to Rs.20,546,398 received in the year under review for the years 2016,2017 and 2018 relating to the duties of the Sri Lanka Standards Institute had been brought to account as the income in the year 2019.	Proper combined management system for the identification of the annual fees payable by the clients for the relevant year has not been established. Therefore, the actual amount received for this annual fees is identified as an income received in the year 2019. This amount has not been identified as an income for the annual account in the years 2016,2017 and 2018 as well.	Financial statements should be prepared in consistent with Sri Lanka Accounting Standards and it should be brought to account by clearly identifying the income belonging to relevant time period.

- (b) In terms of Sri Lanka Accounting Standard 39, the debtor balance should be shown to the amortized value thereof in the financial statements. However, action had not been taken to show the carrying amount by conducting an impairment test on 364 debtor balances totalling Rs. 32,909,431 continued to exist over 6 years as at 31 December of the year under review. As such the institute had not taken a fair action to recover those debtor balances .
- Recovery of debtors is being carried out and due to non-receiving of relevant evidence properly , impairment tests had not been carried out in the year 2019. However, if the recovery of debtors process failed, steps will be taken in accordance with Sri Lanka Accounting Standard 39 in the accounts of the year 2020.
- The financial statements should be prepared in consistent with Sri Lanka Accounting Standards 39 and action should be taken to recover the debtor balances.
- (c) According to the Sri Lanka Accounting Standard 02, stock should be shown to the lower value out of the values of cost and net realized value .However, evaluation on the carrying value amounted to Rs.1,453,912 for instruments and equipment had not been done. Further physical survey on those goods also had not been carried out.
- This issue had been discussed at the final audit and management meeting on 29-07-2020 and it was decided to show to the lower value out of the cost and net realized value after doing valuation with physical survey.
- The financial statements should be prepared in consistent with Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

	Audit Observation	Comment of the Management	Recommendation
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a)	Even though 16 motor vehicles costing Rs.49,970,863 and depreciation rate of 20 per cent has been used for the activities of the institute, the carrying value thereof had	As an assessment for the motor vehicles had been carried out by now, bringing account will be done in the year 2020.	Even though the value of the vehicles become zero , they are used . Therefore ,the value of the vehicles should be assessed and brought to account.

been shown as zero in the financial statements as those had not been assessed.

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| b) | The income amounting to Rs.1,094,368 receivable from the training programmes conducted relevant to the time period 2016-2019 had been omitted from accounts. As such the cumulative profit in the year under review had been under stated by the same amount. | Action will be taken to rectify it in the future. | The accurate values should be brought to account. |
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1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

	Audit Observation	Comment of the Management	Recommendation
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a)	The amount of Rs.4,126,759 saved out of the Rs.20 million received from the General Treasury for the project for granting standard certificates for minor and middle scales industry owners deployed in the Ayurvedic field with Sri Lanka Standards Institution and Sri Lanka Board Of Investment, had not been settled from the year 2010.	Request has been made from the Treasury to extend the duration of this project to complete .Until the commence of the project after obtaining approval, the funds has been deposited in the treasury bonds with other investments in the institution .No any activity has been done in the year 2019.Howevr, decision has been taken to hand over the sum amounting to Rs.4,126,759 to the Treasury by now and action is being taken on this matter.	Action should be taken to settle the relevant balances of advances.

1.6.2 Advances

	Audit Observation	Comment of the Management	Recommendation
a)	Fourteen advances amounting to Rs.1,605,520 remained as at 31 December in the year under review had not been settled even by 01 June 2020.	A sum of Rs.324,263 has been settled by the Journal Voucher No.G20022 out of the balance amounting to Rs.1,605,570 queried and a balance amounting to Rs.1,281,307 is remained.	Action should be taken to settle the advances as immediate as completion of the work.

1.7 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
(a) Management Services Circular No.02/2016	It was observed that occupational allowances amounting to Rs. 24,421,496 for the years 2017,2018 and 2019 had been paid without approval of the Management Services Department as effect from 01 October 2017.	Even though approval has been requested from the Management Services Department, approval has not been received even by now.	Action should be taken in accordance with the Circular No.02/2016.
(b) Recruitment Procedure of the Sri Lanka Standards Institution	Even though a letter had been submitted by the Director General of the Institution so as to served as a Voluntary Research Scientists in such institution during the period of 2006-2008 , no any acceptable evidence (an appointment letter) has been presented to	Appointment letters has not been issued for voluntary services . There is no clear definition for the consideration of Senior management experience as the category of higher management experience or academic and research experience .When considering 05 years experience in the M Phil and 03 years voluntary service experience in other institution , she has 21 years	Acceptable evidence should be presented to the audit and recruitment should be done in accordance with the recruitment procedure.

the audit and experience. The decision of the therefore it was interview board is the final observed that 12 decision. Therefore, the years experience of institution could not be higher management expressed opinions about the position and the decisions taken by them. condition of 20 years experience in an executive grade has not been fulfilled.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 127,252,566 as compared with the corresponding surplus of Rs. 147,192,310 for the preceding year. Accordingly, a deterioration of Rs. 19,939,744 was observed in the financial result. This deterioration had mainly been attributed by the increase in supply and consumer goods cost by Rs8,671,617 and the increase in other operating expenses by sum of Rs. 43,915,374.

3. Operating Review

3.1 Operating Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
a)	Samples should be tested timely regarding the foods which are sensitive to the environmental factors .However, it was observed such instances not so done. As such undue delay of test reports could be seen and as a result of that, unable to introduce the goods to the market, completion of sale in the market before goods are received, expiry date of the goods is ended.	The reasons for the delay occurred in testing are lack of adequate trained analysts, recruitment of Assistant Director(Technical) has not been done in due occasion ,lack of adequate space for the placement of additional equipment required for the increasing of testing capacity and decreasing of testing period . Testing has been done by re-obtaining of samples from relevant production and the results of those samples are complied with the standard. Issuing of goods to the market in between that period is unavoidable.	The institution should take actions to protect the confidence of the consumers on Sri Lanka Standards Institution .

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
a) Issuing of new certificates under the methodology for certification of management systems on the ISO 22000 trust security had been decreased gradually from 54 to 24 since the year 2015 to the year 2019.	In the obtaining and implementing these certification, it has to spend a large amount of money , failure in obtaining certificates for tourist hotels due to the prevailing security condition of the country, had been caused to Decrease of issuing new certificates.	Action should be taken to increase of issuing certificates by giving proper propaganda to the institutions on the necessity and importance of the certification of management systems on ISO 22000 trust security.

3.3 Procurement Management

Audit Observation	Comment of the Management	Recommendation
a) In terms of Section 3.4 and the volume No.28 to the Procurement Guidelines, less than 05 sealed quotations should be called in the shopping method. However, in the calling of bids for obtaining accommodations at Nuwara Eliya for the annual trip of the institution , bids has been called from only one supplier and the facilities had been obtained from the said supplier. So also, as per Section 3.4 of the Procurement Guidelines, approval of the procurement committee of the department should be obtained for the service supplies of less than 05 millions . However, it was observed that a sum of Rs.1,829,400 had been paid for the accommodations by obtaining approval only from the CEO contrary to that.	Bids has been called from the official web e-mail of the Chairman of the Welfare Society. Three hotels has been responded on it and it was decided to select one hotel. As the first trip organized by the newly appointed officers of the Welfare Society, it was forgotten to fix the entire documents within the other bids called due to the unawareness. Further, under the conditions prevailed at that time, if a technical committee appointed in this connection, allocation for the institution would be avoided due to the time taken to complete it. However,action has been taken to follow the Procurement Guidelines properly and it will be considered for the future activities of the Welfare Society.	Action should be taken in accordance with the Procurement Guidelines.