

## **Measurements Units, Standards and Services Fund - 2015**

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The audit of financial statements of the Measurements Units, Standards and Services Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the report of financial performance and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 paragraph 35(5) of the Measurement Units, Standards and Service Act, No 35 of 1995. My comments and observations on the above financial statements appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal controls as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Measurement Units, Standards and Service Fund as at 31 December 2015 its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

## **2.2 Comments on Financial Statements**

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### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The financial statements had not been prepared according to the format and the frame of the presentation of financial statements in terms of Sri Lanka Public Sector Accounting Standard 01.

### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Even though a Depreciation Account and a Provision for Depreciation Account should be maintained separately relating to every fixed asset item, depreciation had been adjusted in the relevant Assets Account itself.
- (b) A total sum of Rs.5,310,026 paid in the year under review as contribution and membership fees relating to the years 2013 and 2014 had been stated as expenditure in the year under review.
- (c) The balance of the Plant Account had been understated by a sum of Rs.9,482,623 and the balance of the Vehicle Account had been overstated by that amount by 31 December of the year under review due to stating the opening balances of Rs.20,175,995 in the Plant Account and Rs.8,322,718 in the Vehicle Account respectively by changing each other in the Ledger Accounts.

### **2.2.3 Lack of Evidence for Audit**

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Register of Fixed Assets for fixed assets, the net value of which amounting to Rs.885,796,317 or Detailed Schedules had not been made available to audit.

### 2.3 Accounts Receivable and Payable

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The values of the unsettled advances which had lapsed for over 7 years and 3 years had been a sum of Rs.66,530 and a sum of Rs.1,525,865 respectively and action had not been taken in the year under review for the recovery of these advances.

### 2.4 Non- compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non- compliance with laws, rules, regulations and management decisions were observed.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non- compliance</b>
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(a) Measurement Units, Standards and Service Act, No. 35 of 1995	
(i) Section 35(2) of Chapter VII	The 1/3 <sup>rd</sup> of share that should be credited to the Government Revenue out of the income of the Fund in the years 2013, 2014 and 2015, amounting to Rs.8,830,977, Rs.54,282,268 and Rs.70,882,923 respectively totalling Rs.133,996,168 had been utilized for the construction of buildings without a proper approval without crediting to the Government Revenue.
(ii) Section 20(1)(a) and Section 37	All the measuring equipments using in trading activities are required to be verified annually. However, a proper methodology had not been established in the Fund to ensure whether all the equipments are verified.
(b) Stamp Duty Act No.12 of 2006 and Gazette Notification No.1530/13 of 01 January 2008 of the Democratic Socialist Republic of Sri Lanka	Even though a stamp duty amounting to Rs.25 should be recovered for payments more than Rs.25,000 in the payment of money, action had not been taken accordingly.
(c) Public Administration Circular No. 06/97 of 03 February 1997	An acting appointment should be limited up to a maximum period of 03 months. However, action had been taken to cover the duties of the vacancy, occurred since the date of the retirement of former Director on 05 May 2009 by appointing an officer on acting basis without taking action to fill that vacancy even by 31 August 2016.

- (d) Paragraph 2.1(a) of the Public Finance Circular No. PF/423 of 22 December 2006
- The Budget of the Fund required to be furnished to the Director General of National Budget and the Director General of Public Finance before 30 September 2014 action had not been taken accordingly.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Fund for the year under review had resulted in a surplus of Rs.99,958,904 as compared with the corresponding surplus of Rs.93,149,853 for the preceding year, thus indicating an improvement of Rs.6,809,051 in the financial results of the year under review. The increase of the sealing income by a sum of Rs.33,225,131 had been the main reason for the improvement of the financial result.

In analyzing the financial results of the year under review and of 04 preceding years, the surplus amounting to Rs.74,972,312 in the year 2011 had indicated fluctuations in the years 2012,2013 and 2014 and it had been a sum of Rs.99,958,904 in the year 2015. In considering personnel emoluments, taxes paid to the government, and depreciation on non- current assets, the contribution amounting to Rs.90, 539,201 in the year 2011 had been sums of Rs.104,101,297, Rs.113,722,149, Rs.105,554,346 and Rs.111,059,922 respectively in the years 2012,2013,2014 and 2015.

### **4. Operating Review**

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#### **4.1 Management Activities**

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The interest income deprived to the Fund had been a sum of Rs.5,223,010 due to obtaining money by discounting before the maturity of the Treasury Bills in the year under review.

#### **4.2 Operating Activities**

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Even though the details of the units and the fees recovered in relation thereto verified by the District Officers are being reported to the Fund by those officers, a proper methodology which ensures their accuracy had not been formulated by the Fund. As such, the accuracy of the income received by sealing of those measurement units could not be satisfied in audit.

### **4.3 Personnel Administration**

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The following observations are made.

- (a) It could not be ruled out in the audit that there was no encumbrance to execute the objectives and functions of the Fund properly by not taking action to fill 126 vacancies, consisting of 05 vacancies in the senior level, 29 vacancies in the tertiary level, representing 37 per cent out of the approved number of posts even by the end of the year under review.
- (b) Senior Level posts such as the Director, the Accountant, the Deputy Director, Accountant (Internal Audit), the Deputy Director (Departmental) had remained vacant for 7 years and 2 months, 03 years, 2 years and 6 months respectively.
- (c) Even though 20 and 03 employees had been recruited for the post of M.S.D Examiner (Trainee) and Laboratory Assistant (Trainee) posts respectively, come under the Secondary Level, these posts had not been approved by the Department of Management Services.

## **5. Accountability and Good Governance**

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### **5.1 Action Plan**

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Even though an Action Plan had been prepared for the year under review, expenditure could not be compared with the Action Plan due to as it had not been prepared, parallel with the Annual Budget. The Progress Reports relating to the activities included in the Action Plan had not been made available to audit, even by 31 August 2016.

### **5.2 Internal Audit**

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An Internal Audit Unit had not been established in terms of the Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka.

### **5.3 Audit Committees**

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Audit Committee meetings had not been held in terms of Section 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

### **5.4 Procurement Plan**

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Even though a Procurement Plan had been prepared for the year 2015, it had not been sent to the relevant Ministry and the Treasury.

## 5.5 Budgetary Control

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A variance ranging from 31 per cent to 100 per cent between the budgeted income and expenditure and the actual income and expenditure were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

## 6. Systems and Controls

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Acting Director of the Department from time to time. Special attention is needed in respect of the following areas of control.

### Areas of Systems and Controls

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### Observations

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(a) Income and Expenditure Control	Not taking action to achieve the expected objectives of the Budget by income and expenditure control.
(b) Assets Administration	Not maintaining a Register of Fixed Assets.
(c) Internal Audit	Not establishing an Internal Audit Unit.
(d) Personnel Administration	Not taking action to fill the approved employee vacancies.
(e) Budgetary Control	Not making use of the Budget as an effective instrument of management control.
(f) Accounting	Not keeping journal entries properly and not making available the relevant working papers to audit.
(g) Financial Control	Not certifying that the balance is accurate by balancing the cash book monthly, by the Accountant.