Sri Lanka Institute of Textiles and Apparels – 2012

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1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Institute of Textile and Apparels as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1:2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

(a) A sum of Rs.18,929,248 comprising Rs.18,443,072 and Rs.486,176 respectively had been received from the Government and apparel factories in respect of three special programmes implemented by the Institute during the year 2012. The entire savings of Rs.2,695,058 after spending for the implementation of these programmes had been shown in the income statement as a profit instead of crediting a specific percentage to the profit.

(b) Advances amounting to Rs.1,102,250 had been paid for purchasing of 3 motor vehicles. It had not been shown in the financial statements as advances whereas it had been incorrectly shown under other fixed assets.

1.2.2 **Accounts Receivables**

The following observations are made.

(a) A sum of Rs.3,261,651 out of Rs.25,798,386 remaining receivable as at 31 December 2012 from supply of services of the Institute on credit basis had remained outstanding for more than a period of 2 years and the Institute had not implemented adequate procedure to recover these loans.

(b) Even though money at the rate of Rs.5,000 per month to be recovered from the apparel manufacturing institutions receiving benefits under the Productivity Development Project of the apparel sector, action had not been taken even up to the end of the year under review to recover a sum of Rs.165,000 from 13 institutions.

1.2.3 **Lack of Evidence for Audit**

Evidence indicated against the following items of accounts had not been submitted for audit.

Item of Accounts	Value	Evidence not Presented
	Rs.	
Trade Debtors	25,690,543	Letters of confirmation of balances
Fixed Assets	121,198,803	Report of the Board of Survey

1.2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed during the course of audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Sri Lanka Institute of Textiles and Apparels Act	
Section 3(1)	Even though the Board of Control of the Institute should consist of 12 members, the Board of Control had been limited to 09 members only up to the end of the year 2012.
(b) Section 2.1 of Chapter 6 of the Establishments Code	A history sheet had not been maintained in the personal file of each officer.

1.2.5 Transactions not Supported by Adequate Authority

A sum of Rs.1,186,671 remaining recoverable from government institutions had been written off from the accounts without the approval of the Treasury.

2. Financial Review

2.1 Financial Results

The operations of the Institute for the year under review had resulted in a surplus of Rs.6,209,102 as compared with the corresponding surplus (Restated) of Rs.13,935,340 for the preceding year. The financial results for the year under review as compared with the preceding year had deteriorated by Rs.7,726,238. Increase in the total income by Rs.12,670,107 and increase in the total of administration, contractual services and other operating expenditure by Rs.21,390,847 for the year under review as compared with the preceding year had specially attributed for the deterioration. However, if the profit of Rs.2,695,058 which was shown incorrectly in paragraph 1.2.1 of this report had been removed, the profit for the year under review could have decreased by that amount.

3. Operating Review

3.1 Performance

The main objectives of this Institute are training of personnel for industries related to manufacturing textiles and apparels and providing services such as tests and consultancies. The performance relating to execution of those activities as compared with the preceding year is given below.

Activities	2012	2011	Increase in the year under review	Percentage of Increase and Decrease
Training				
Number of Courses Conducted	157	119	38	32
Number of Participants	3903	1,790	2113	118
Income from Training Courses (Rs. million)	34.58	24.56	10.02	41
Tests				
Number of Inspections	50,105	43,864	6,241	14
Income from tests (Rs.million)	47.28	43.94	3.34	8
Consultancy Services				
Number of Consultancy Services	20	18	2	11
Income from Consultancy Services (Rs. million)	2.31	4.02	(1.71)	(43)

The following observations are made in this connection.

(a) Forty one fulltime and weekend courses scheduled to conduct up to 31 December 2012 had not been conducted in the year under review and as such the Institute had deprived an income of Rs.10,723,000 which could be obtained by conducting courses in the year under review.

(b) Even though number of tests carried out during the year under review had increased by 14 per cent as compared with the preceding year, the corresponding percentage of increase of income had been 7.6 per cent.

(c) Number of consultancy services had increased by 2 in the year under review as compared with the preceding year. However, the corresponding income had decreased by 42.5 per cent.

(d) The Institute had conducted seminars on the request made by the external parties whereas the Institute had not conducted any seminar during the year under review. Even though it was the main responsibility of the Institute to organize relevant seminars so as to promote the sector and implementation of development programmes among the persons involved in the sector, the management had not drawn attention in this regard.

3.2 **Management Inefficiencies**

The Institute had paid a sum of Rs.895,698 as penalty during the year under review due to not making payment of contribution of Employees Provident Fund and Employees Trust Fund within the specified period. It was observed that necessary action had not been taken against the officer responsible in this regard.

3.3 Idle and Underutilized Assets

The following observations are made.

(a) Even though 24 computers, 2 printers and internet facilities had been provided for the Computer Learning Centre established within the Institute, it was unable to conduct the courses properly due to not deploying a qualified computer instructor.

(b) A sum of Rs.109,920 had been spent on 27 September 2012 for repairing a diesel tank belonging to the Institute. However, the above tank had not been taken for utilization even up to the end of the year under review.

(c) Even though sums aggregating Rs.2,601,175 had been spent by the Institute in the year 2009 to release a van from the Customs and repair it, this vehicle was not in a running condition even up to 31 March 2013.

3.4 Deficiencies in the Contract Administration

3.4.1 Construction of Engineering Works Building

The cost of engineer's estimate for construction of the above mentioned building was Rs.8,966,702. This contract had been awarded on 03 May 2010 for Rs.5,361,615. The following observations are made in this connection.

(a) According to the agreement, the construction works should be completed before 31 August 2010. However, this construction work had not been completed even up to the end of the year under review. Action had not been taken to recover liquidated damages in this regard according to the agreement.

(b) The original estimate had been revised in 02 instances by a total sum of Rs.1,515,034 after awarding contract. It represented 28 per cent of the original contract value.

(c) Even though the value of certified works carried out by the contractor amounted to Rs.5,633,389, a sum of Rs.182,748 had been overpaid to the contractor as the amount of cash paid was Rs.5,816,137.

3.4.2 **Partition of Classroom of the Institute, Seminar Room, Director General's Room, Textile Weaving Room.**

The above mentioned contract had been awarded in the month of November 2012 for Rs.3,252,646. The following observations are made in this regard.

(a) Even though the above mentioned contract should have been completed and handed over on 31 January 2013 in terms of the contract agreement, the works had not been completed even up to 10 April 2013. The liquidated damages amounting to Rs.112,216 to be recovered on that date for 69 days had not been recovered.

(b) Even though the contracts awarded previously to the contractor by the Institute had not been completed and handed over within the specified period, this contract had also been awarded to him by the Technical Evaluation Committee without considering the past performance of this contractor.

3.5 **Personnel Administration**

The following deficiencies were observed.

(a) The Clothing Industry Training Institute and the Textile Training and Services Centre had been amalgamated and the Institute of Textile and Apparel had been newly established with effect from 01 September 2009 by the Institute of Textile and Apparel Act, No.12 of 2009. Even though amalgamation had been made as such, new appointment letters had not been granted even up to the end of the year under review to the staff including officers of the newly established institution.

(b) The Institute had not prepared a fresh recruitment procedure for the approved cadre and it had not been approved by the Department of Management Services. The proposed recruitment procedure under the restructuring of Institute had not been presented for the recommendation of the National Salaries and Cadre Commission.

(c) It was pointed out that a Staff Development Fund should be established by the Institute for promotion of skills and knowledge of the staff of the Institute in terms of Section 12(1) of the Institute of Textile and Apparel Act, No.12 of 2009. However, a Staff Development Fund had not been established even up to the end of the year under review in terms of the above Section.

3.6 Establishment of a Fund relating to Provision for Employee's Gratuity

A sum of Rs.26,145,564 in the Provision for Employee's Gratuity Account as at 31 December 2012 had not been invested for future liabilities.

4. Accountability and Good Governance

4.1 Internal Audit

The staff of the Institute had consist of 100 persons. Even though the operating income and expenditure of the Institute for the year under review had exceeded Rs. 100 million, a permanent Internal Auditor had not been appointed for the Institution. Therefore, adequate internal audit had not been carried out during the year under review in respect of any area of the Institute.

4.2 Procurement Plan

Even though a master Procurement Plan including the anticipated procurement activities at least for a period of 03 years should have been prepared by the Procurement Entity in terms Section 4.2.1 (a) and (b) of the Government Procurement Guidelines, a Procurement Plan had not been prepared by the Institute even up to the end of the year under review.

5. Systems and Controls

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

(a) Accounts Receivable
(b) Stocks and Assets Control
(c) Personnel Administration
(d) Construction Contracts