

The audit of financial statements of the Sri Lanka Institute of Textiles and Apparels for the year ended 31 December 2015 comprising the statement of financial positions as at 31 December 2015 and the statements of the financial performance, statements of changes in equity and 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the Section 13(1) of the Finance Act, No.38 of 1971 and Section 14(3) of the Sri Lanka Institute of Textiles and Apparels Act, No.12 of 2009. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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 control 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

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 judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute'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 Institute'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 financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

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 Sri Lanka Institute of Textiles and Apparels as at 31 December 2015 and 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 02

The motor vehicle valued at Rs.2,130,000 received under capital grants had been considered as financial grants and had been shown as an outflow of cash arising from investment activities and as a cash inflow from financial activities in the cash flow statement.

(b) Sri Lanka Public Sector Accounting Standard 07

The effective life of the non current assets had not been reviewed annually and as a result, 205 fully depreciated items of assets costing Rs.8,088,767 continued to be in further use. Action had not been taken for the revision of the estimated error in terms of the Sri Lanka Accounting Standard 03. Even though a sum of Rs.822,480 had been paid to the Department of Valuation to value the assets of the Institute during the year 2015, the valuation reports had not been obtained up to date.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The advance of Rs.61,200 paid by the Institute for the establishment of computerized staff management system had been shown under the other non-financial assets instead of being shown as an advance.
- (b) The interest of Rs.129,923 receivable in connection with a fixed deposit made in a Bank had not been brought to account.
- (c) The Value Added Tax amounting to Rs.3,597,880 paid for the sewing machines purchased during the year under review had been considered as a capital expenditure and debited to the Household Apparels Industry Project Account instead of being set off from the output tax.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the balances totalling Rs.,20,212,785 receivable as at 31 December of the year under review, a sum of Rs.4,771,861 remained without being recovered over a period exceeding 02 years.
- (b) Action had not been taken for recovery of the Value Added Tax receivables amounting to Rs.290,441 brought forward from the accounts of the Textile Training and Services Centre amalgamated at the establishment of the Institute in the year 2011.

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

Non-compliances with the following laws, rules, regulations and management decisions were observed during the course of audit.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
-----	-----
(a) Treasury Circular No. 842 of 19 December 1978	A Register of Fixed Assets had not been maintained.
(b) Treasury Circular No.IAI/20002/02 of 28 November 2002	A Register of Fixed Assets on Computers, Accessories and Software had not been maintained.

2.5.7 Transactions not supported by Adequate Authority

Sums totalling Rs.4,842,627 comparing Rs.2,546,519 in the year 2014 and Rs.2,296,108 in the year 2015 had been paid as the engineering allowance, school allowance, course co-ordinating allowance and the Accountants allowances without obtaining the approval of the Cabinet of Ministers or the Ministry of Public Administration or the General Treasury in terms of the Public Enterprises Circular No.95 of 14 June 1994 and paragraph 2.1.5 of the National Budget Circular No.1/2014 dated 01 January 2014.

3. Financial Review

3.1 Financial Results

The financial result of the Institute for the year under review had been surplus of Rs.2,426,420 as compared with the surplus of the Rs.46,235,868 for the preceding year, thus indicating the deterioration of the Rs.43,809,448 in the financial result for the year under review as compared with the preceding year. The decrease of the income of the year under review by a sum of Rs.30,235,595 and the increase of the employees remuneration and employees benefits by a sum of Rs.17,147,078 as compared with the preceding year had been the main reasons for the deterioration of the financial result.

An analysis of the financial results of the year under review and 4 preceding years indicated fluctuating financial surplus from the year 2011 to the year 2015. Nevertheless when the employees' remuneration, the Government taxes and the depreciation on non-current assets are considered the contribution of Rs.69,374,663 in the year 2011 had continuously improved to Rs.137,931,510 by the year 2014 whilst it had decreased to Rs.111,088,905 in the year 2015.

4. Operating Review

4.1 Performance

According to the Sri Lanka Institute of Textiles and Apparels Act, No.12 of 2009, the training of persons for the industries related to the production of textiles and apparels and services such as inspections and consultancy are the key activities of the Institute. The following observations are made in connection with the performance of such activities.

Activity	2015	2014	Increase/(Decrease) in the year under review	Percentage of Increase/(decrease)
<u>Training</u>				
Number for Courses Conducted	62	24	38	158
Number of Students Participated	890	372	518	139
Training Courses Income (Rs. Millions)	40.83	13.34	27.49	206
<u>According to the request of external Parties</u>				
Number of Courses conducted	89	120	(31)	(26)
Number of Students participated	3,512	3,947	(435)	(11)
Training Courses Income (Rs. Millions)	30.60	42.94	(12.34)	(29)
<u>Inspections</u>				
Number of Inspections	39,424	65,031	(25,607)	(39)
Inspection Income (Rs. millions)	43.9	83.58	(39.68)	(47)
<u>Consultancy Services</u>				
Number of Consultancy Services	10	16	(6)	(38)
Consultancy Services Income (Rs. Millions)	3.5	1.1	2.4	218

- (a) Even though the participation of 1,437 students for conducting 111 courses had been targeted according to the Action Plan for the year 2015, only 62 courses had been conducted by the end of the year. The student participation had been 890. Accordingly the progress of the courses conducted and the student participation as compared with the Action Plan, had been 56 per cent and 62 per cent respectively. In view of the failure to take action in accordance with the Action Plan of the Institute by 31 December 2015, the income that could not be earned from the targeted income of the Rs.59,337,000 from the course income had been Rs.18,501,510. That represented 31 per cent of the targeted income.
- (b) Number of Courses conducted during the year under review on the requests of external parties, as compared with the preceding year, had decreased by 31 per cent. In view of that reason, course income as well had decreased from Rs.42.94 million to Rs.30.60 million by 29 per cent.
- (c) The conduct of Course by the Institute had not been done in accordance with the Action Plan and the objectives such as the organization of the Courses for the advancement of the Sector, the implementation of professional programmes adequately among those engaged in the Sector and bringing the progress of each area of training to the attention of Board of Governors from time to time had not been achieved.

- (d) The number of inspections and the income of the year under review as compared with the preceding year had decreased by 25,607 inspections and the inspection income had decreased by Rs.39.68 million or 47 per cent. The decrease of income from the school uniform inspections by Rs.35.30 million had a special impact on the decrease.
- (e) Even though 06 years had elapsed since the establishment of the Sri Lanka Institute of Textiles and Apparels in the year 2009, up to the end of the year 2015, the necessary arrangements had not been made even by 31 December 2015 for the conduct of Postgraduate Degree and First Degree Programmes on the Textile and Apparel Sector in terms of Section 04(a) of Part 01 of the Sri Lanka Institute of Textiles and Apparels Act, No.12 of 2009.
- (f) Even though the issuance of Accreditation Certificates conforming to the International and National Standards and the Standard Systems of Companies to the persons engaged in the Textile and Apparel Industry is an objective of the Institute action had not been taken even by the end of the year under review to obtain the National Vocational Qualification Level recognition for the courses conducted by the Institute.

4.2 Management Activities

The following observations are made.

- (a) The Institute had obtained a Jeep not in running condition from the Ministry of Industries and Commerce in November 2014 on temporary basis and the Institute had spent a sum of Rs.362,175 as repair expenses. But, as it had not converted to running condition, it had been returned to the Ministry. Action had not been taken for the recovery of the money spent on repairs from the Ministry of Industries and Commerce.
- (b) Action had not been taken even by the end of the year under review to get the legal ownership of 02 Motor Vehicles received as grants in the years 1991 and 1997 transferred to the Institute.
- (c) Even though Treasury provision of Rs.1,500,000 had been estimated for the year under review for the Human Resources Development, expenditure on foreign training had been incurred without the approval of the Treasury. In such circumstances it had not been possible to obtain reimbursement of the sum of Rs.1,098,500 spent on foreign training from Treasury.
- (d) Action had not been taken for holding inquiries on the 3 computers valued at Rs.400,223 misplaced in the years 2012 and 2014 and recover from the officer responsible.
- (e) Even though a sum of Rs.63,413 had been spent on the extension of the period of a letter of credit opened on 15 October 2014 for the purchase of scientific equipment through an Agency in Sri Lanka and commission and telex fees action had not been taken even by 31 July 2016 to obtain the scientific equipment by the Institute.

4.3 Operating Activities

Action had not been taken for recruitment of an officer in charge and a Boiler Operator and for the training of officers of the Institute related to the activities for the Textile Industry Design Training and Sales Centre constructed in Palamunai area in the Batticaloa District utilising Rs.30,000,000 of the Department of Textile Industry and Rs.15,000,000 from the Institute. As such it had not been possible to achieve the objectives such as the supply of yarn at concessionary price for those engaged in the industry, the supply of spare parts and other equipment for handlooms at fair price, the supply of quality inspection service, the creation of marketing opportunities and export promotion opportunities to the local industries and the establishment of a Research and Training Unit at the Centre.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) A sum of Rs.263,200 had been spent in the year under review for the publishing of a newspaper advertisement outside the objectives of the Institute.
- (b) According to the provisions in Section 3.1 of Chapter XV of the Establishments Code, an officer on probation should not be sent abroad for study or training other than only for obtaining any qualification which, according to the conditions of the relevant appointment, should be obtained for confirmation in the service. Nevertheless, 4 officers of the Institute who were serving in the probation period had been sent abroad for training courses and a seminar and a sum of Rs.442,648 had been spent on that during the year under review.
- (c) A sum of Rs.101,257 had been spent in the year under review without the approval of the Board of Governors, as the annual membership fees payable to different Professional Institutions, the membership of which are held by the officers of the Institute.
- (d) The Institute had reimbursed a sum of Rs.555,201 during the year under review without the approval of a Board of Governors, the fees of the postgraduate and other courses of study followed by the officers of the Institute on request made by them.

4.5 Resources of the Institute given to other State Institutions

The double cab motor vehicle valued at Rs.7,500,000 given to the Institute by the General Treasury in the year 2014 had been released on 04 September 2013 for the use of the line Ministry contrary to Section 8.3.9 of in Public Enterprises Circular No.PED/12 of 02 June 2003. Even though a Institute had spent a sum of Rs.910,472 as its repair expenses the Institute had not taken action for the recovery of that money from the Ministry.

4.6 Uneconomic Transactions

The following observations are made.

- (a) Even though the Institute had paid a sum of Rs.140,000 to the Sri Lanka Foundation Institute as the expenditure for an officers of the Institute to participate in a Scholarship Programme due to be held in India. As this foreign tour had been cancelled without adducing reasons, the Institute had been deprived of a sum of Rs.92.464 out of the amount aid.
- (b) The Mannar Training Branch established by the Institute in the year 2014 had spent a sum of Rs.1,870,111 in the year 2015 without any income sources whatsoever. Similarly, this Training Branch had spent a sum of Rs.1,036,259 exceeding the income for maintenance in the year 2014.

4.7 Staff Administration

The following observations are made.

- (a) Even though officers should be recruited according to the methodology in the new Scheme of Recruitment approved on 23 March 2015, contrary to that 09 officers in service on contract basis had been appointed to permanent posts in the year under review.
- (b) According to the Section 154 of the Procedural Rules Manual of the Public Service Commission, the power for the re-employment of retired Public Officers in Public Service rests only with the Public Service Commission. Instead of taking action accordingly, a retired officer had been recruited on the approval of the Board of Governors as a Consultant on contract basis for one year with effect from 01 October 2014 and paid allowances amounting to Rs.565,125.

5. Accountability and Good Governance

5.1 Internal Audit

A Internal Auditor only has been deployed at present for internal audit. The Institute had not taken action to carry out an effective internal audit by recruiting an adequate staff.

5.2 Procurement Plan

According to the Guidelines 4.2.1(a),(b) ,(c) and (e) of the Government Procurement Guidelines, the Procurement Entity should prepare the Master Procurement Plan by including the Procurement action envisaged at least for a period of 3 years, prepare the Procurement activities for the immediately succeeding year in detail and regularly update the Master Procurement Plan at intervals not later than six months. But the Institute had not prepared the Procurement Plan accordingly.

5.3 Budgetary Control

Variances ranging from 08 per cent to 80 per cent were observed in the comparison of the budgeted income and expenditure and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.4 Unresolved Audit Paragraphs

According to the directive made at the meetings of the Committee on Public Enterprises held on 16 October 2012 and 08 April 2014, attention should have been paid for conduct of Scientific Researches on the Apparel Industry. Even though the Institute had established a Research and Development Unit, other than the conduct of a Preliminary Survey of the Apparel Sector, no other action has been done by this Unit up to date.

6. Systems and Controls

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

Area of Systems and Control -----	Observations -----
(a) Recovery of Debts Receivable	Lack of an effective arrangement for the recovery of debtors balances older than 02 years totalling Rs.4,771,861.
(b) Conduct of Efficiency Bar Examinations	Action had not been taken for the conduct of the Efficiency Bar Examination relating to the each post.