

## **Sri Lanka Institute of Textiles and Apparels – 2014**

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The audit of financial statements of the Sri Lanka Institute of Textiles and Apparels for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement 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 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. A detailed report in terms of Section 13 (7)(a) of the Finance Act was issued to the Chairman of the Institute on 14 July 2015.

### **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 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**

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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 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 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 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 the financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No. 38 of the 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 audit opinion.

## 2. Financial Statements

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### 2.1 Opinion

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In my opinion, 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 2014 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

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#### 2.2.1 Accounting Deficiencies

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Assets at the value of Rs.19,124,005 received under domestic and foreign grants had been shown under financing activities in the cash flow statement as financial grants.

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Out of the total receivable balance amounting to Rs. 23,531,375 as at 31 December of the year under review, a sum of Rs.1,262,808 had been outstanding for over a period of 2 years and a sum of Rs.2,226,928 for over a period of 5 years. Moreover, no proper procedure had been implemented by the Institute to recover these loans.
- (b) Even though the receivable goods and services tax aggregating Rs.290,441 brought forward in the accounts of the Textile Training and Services Centre, amalgamated in the establishment of the Institute in the year 2011 had been included in the financial statements, action had not been taken to settle it.
- (c) Action had not been taken to recover the salary amounting to Rs.43,280 paid for the month of February 2014 by the Institute to a driver temporarily released to a state company by the Institute on 17 June 2013, even by the end of the year under review.
- (d) Action had not been taken to settle the excess amount received from trade debtors totalling Rs.90,431 existing from the beginning of the year under review.

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

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

#### Reference to Laws, Rules, Regulations and Management Decisions

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#### Non-compliance

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- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Financial Regulation 104(1)

Even though 02 laptop computers in the year under review and one laptop computer in the

- year 2012 belonging to the Institute had been misplaced, a Panel of Inquiry had not been appointed and inquiries had not been commenced to determine those responsible thereto.
- (b) Treasury Circular No.842 of 19 December 1978 A Register of Fixed Assets had not been maintained.
- (c) Treasury Circular No. IAI/2002/02 of 28 November 2002 A Register of Computer Accessories and Software had not been maintained.
- (d) Public Finance Circular No.441 of 09 December 2009 Reports of Boards of Survey relating to the year under review had not been presented.

## **2.5 Transactions not Supported by Adequate Authority**

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A sum totalling Rs.2,924,519 had been paid in the year under review as Engineers allowances, Course Coordinating allowances, Secretary allowances and Accountant allowances without the approval of the Cabinet of Ministers or the Ministry of Public Administration or the General Treasury in terms of Public Enterprises Circular No.95 of 14 June 1994 and section 2.1.5 of National Budget Circular No.1/2014 of 01 January 2014.

## **3. Financial Review**

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### **3.1 Financial Results**

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The financial result of the Institute for the year under review had been a surplus of Rs.46,235,869 as compared with the corresponding surplus of Rs.41,840,235, thus indicating a favourable improvement of the financial result by Rs.4,395,634 in the year under review as compared with the preceding year. Even though the total operations expenditure including personal emoluments, repairs and maintenance expenditure, contractual services, depreciation and amortization and other expenditure had increased by Rs.24,065,338, the increase of the total operations income by Rs.31,274,854 had mainly contributed to the favourable growth of the financial result.

## **4. Operating Review**

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### **4.1 Performance**

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

<b>Activity</b>	<b>2014</b>	<b>2013</b>	<b>Increase/(Decrease) in the year under review</b>	<b>Percentage of Increase and (Decrease)</b>
<b><u>Training</u></b>				
Number of Courses Conducted	24	38	(14)	(37)
Number of Participants	372	363	9	2
Income from Training Courses (Rs. Millions)	13.34	15.47	(2.13)	(14)
<b><u>On the Requests of External parties</u></b>				
Number of Courses conducted	120	141	(21)	(15)
Number of participants	3,947	3,067	880	29
Income from Training Courses (Rs. Millions)	42.94	30.89	12.05	39
<b><u>Tests</u></b>				
Number of Inspections	65,031	60,965	4,066	7
Income from tests (Rs. millions)	83.58	75.43	8.15	11
<b><u>Consultancy Services</u></b>				
Number of Consultancy Services	16	45	(29)	(64)
Income from Consultancy Services (Rs. millions)	1.1	5.46	(4.36)	(80)

The following observations are made in this connection.

- (a) Even though the participation of 1,300 students for 100 courses had been expected according to the Action Plan for the year 2014, only 24 courses had been conducted by the end of the year with the participation of 372 students. That represented a decrease of 71 per cent of students than the expected number of students and as such, the income from the courses also, had decreased by Rs.2.13 million representing 14 per cent as compared with the preceding year.
- (b) Even though the number of courses conducted at the request of external parties in the year under review had decreased by 21 as compared with the preceding year, the income from courses had increased from Rs.30.89 million to Rs.42.94 million

representing 39 per cent due to the increase of course fees during the year under review.

- (c) The number of consultancy services conducted by the Institute in the year under review had decreased by 29 per cent as compared with the preceding year and the income from consultancy services had also decreased by Rs.4.36 million representing 80 per cent.
- (d) Even though the responsible officers had stated in respect of the conducting of courses planned by the Institute in the Action Plan, the conducting of courses had not been carried out according to the Action Plan. It is a major responsibility of the Institute to organize courses for the prosperity of the Sector and carry out promotional programmes among those engaged in the sector. Nevertheless, the management had not paid attention thereon.

#### **4.2 Management Inefficiencies**

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The following observations are made.

- (a) Even though a period of 18 years had elapsed after the receipt of 02 motor vehicles as a donation to the Institute, action had not been taken to affect the legal transfer of ownership even up to the end of the year under review.
- (b) A sum of Rs.822,480 shown under accrued expenses in the year under review for the revaluation of assets of the Sri Lanka Institute of Textiles and Apparels, had been paid to the relevant party in the year 2015 without obtaining the revaluation reports.
- (c) Even though officers should be engaged in overtime only at urgent and special instances on the prior approval of the Heads of the relevant Divisions, clearly indicating the necessity of duty, without doing so, a total sum of Rs.1,294,228 had been spent in the year under review for engaging officers of the Institute in overtime on week days.
- (d) A total sum of Rs.2,644,990 had been spent exceeding the provisions due to implementation of 03 training projects by the Sri Lanka Institute of Textiles and Apparels from the provisions made by the Ministry of Industries and Commerce, without a proper plan and entering into relevant agreements.

#### **4.3 Operating Inefficiencies**

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The following observations are made.

- (a) Even though a total sum of Rs.7,729,008 had been spent in the year under review for the Productivity Promotion Programme implemented from the provisions of the Ministry of Industries and Commerce, the supervision and progress of these programmes had not been carried out through the relevant review committees. The sum of Rs.1,500,000 spent for an institution selected for the implementation of this programme had become a fruitless expenditure as that institution had abandoned it half way.

- (b) It was stated in Section 12(1) of the Sri Lanka Textiles and Apparels Institute Act, No.12 of 2009 that a Staff Development Fund should be established by the Institute to improve the skills and knowledge of the staff. Nevertheless, a Staff Development Fund had not been established in terms of that Section even by the end of the year under review.

#### **4.4 Transactions of Contentious Nature**

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The following observations are made.

- (a) A sum of Rs.154,000 had been spent in the year under review for publishing a newspaper advertisement irrelevant to the objectives of the Institute.
- (b) Even though the selection of consultants to Government Institutions should be made according to the Government Procurement Guidelines, contrary to that, a member of the Board of Directors of the Institute had been appointed as a consultant of the Research and Training Unit and paid a sum of Rs.1,317,000 as allowances for the year under review and the preceding year.

#### **4.5 Underutilization of Funds**

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Out of the provisions made available by the Ministry for the implementation of 05 special programmes relating to the Textiles and Apparels Sector in the year under review, a sum of Rs.10,786,220 had not been utilized for the relevant programmes.

#### **4.6 Idle and Underutilized Assets**

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The following observations are made.

- (a) Even though a gate and a security hut had been constructed during the year 2011 at a cost of Rs.1,518,560, the gate and the security hut had not been used even by the end of the year under review.
- (b) Even though it had been recommended by the Report on the Board of Survey of the year 2013 that 02 vehicles used by the Institute should be disposed of, action had not been taken to dispose of those 02 vehicles even by the end of the year under review.
- (c) Even though the diesel tank costing Rs.296,539 had been repaired in the year 2012 spending a sum of Rs.109,920, it had not been made use of even by the end of the year under review.
- (d) The machinery spare parts costing Rs.1,356,195 received under foreign aid had remained idle for 17 years in the stores without being used.

#### **4.7 Resources of the Institute given to other Government Institutions**

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Despite releasing the double cab motor vehicle valued at Rs.7,500,000 granted by the General Treasury to the Institute in the year 2012, for use by the line Ministry on 04 September 2013

contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003, a total sum of Rs.910,472 had been spent by the Institute for the repairs of that motor vehicle.

#### **4.8 Uneconomic Transactions**

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The following observations are made.

- (a) Even though a sum of Rs.49,140 had been spent in the year under review for publishing an advertisement for the recruitment to the post of Marketing Consultant not in the approved cadre, no recruitments had been made.
- (b) In providing group transport to officers by the Institute, 02 vehicles had been unnecessarily made to run back to the Institute instead of parking at a place decided by the Head of Department at the end of the destination. As such, a sum of Rs.817,950 had been incurred as fuel and other expenses, relating to the year under review and it was observed in audit that these expenses could be cut down approximately to half, had the vehicle been parked at night at the end of the destination as mentioned above.
- (c) Even though a sum of Rs.1,121,259 had been spent as at 31 December 2014 for the establishment of a branch for the Institute at Mannar, this branch had been inoperative by the end of the year under review. As it was observed that a sum exceeding Rs.160,000 is spent monthly for the maintenance of this branch, this expenditure was observed as uneconomic.

#### **4.9 Personnel Administration**

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Chairmen of all corporations had been informed that temporary recruitments should be avoided during the period of the Presidential Elections in terms of Section 03 of Circular No.P.R.E.2015/4C of 26 November 2014 of the Commissioner of Elections. Nevertheless, 06 trainees had been temporally recruited without the approval of the Board of Directors and the Secretary to the Ministry of Industries and Commerce without issuing of proper letters of appointment and paid allowances aggregating Rs. 77,025 for December 2014.

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

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#### **5.1 Internal Audit**

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An adequate internal audit had not been carried out in the year under review and only copies of 2 internal audit queries had been presented to the Auditor General. At present only a female officer is employed for internal audit and the Institute had not taken action to appoint an adequate staff to carry out an effective audit.

#### **5.2 Procurement Plan**

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Even though the Procuring Entity should prepare a Master Procurement Plan including the procurement activities envisaged at least for a period of three years and the procurement activities for the following year in detail and that the Master Procurement Plan be updated within a period not less than 06 months, in terms of Section 4.2.1(a), (b), (d) and (e) of the

Government Procurement Guidelines, the Institute had not prepared the Procurement Plan accordingly.

**5.3 Budgetary Control**

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Variances ranging from 02 per cent to 83 per cent were observed between the budgeted and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of financial control.

**5.4 Unsettled Audit Paragraphs**

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Even though the Committee on Public Enterprises had directed at the meeting held on 16 October 2012 that attention should be paid for conducting scientific researches of the clothing industry, apart from the establishment of a Research and Development Unit and taking steps to carry out a primary survey of the clothing industry, no other work whatsoever had been done by the unit.

**5.5 Performing the Environmental and Social Responsibilities**

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The Institute had not identified the environmental and social responsibilities relating thereto.

**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 Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Debtors and Creditors Control
- (c) Assets Control
- (d) Personnel Administration
- (e) Stores Control
- (f) Organization of Courses