

**Report of the Auditor General on the Head 303 – Department of Textile Industries –  
Year 2016**

The audit of the Appropriation Account and the Reconciliation Statements including the financial records, books, registers and other records of the Head 303 - Department of Textile Industries - Year 2016 for the year ended 31 December 2016 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Director of the Department on 25 September 2017. The audit observations, comments and findings on the accounts and reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide audit coverage as possible within the limitations of staff, other resources and time available to me.

**1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements**

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and Public Finance and Administrative Regulations. The responsibility includes; designing, implementing, maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

**2. Accounts**

**2.1 Appropriation Accounts**

**(a) Total Provision and Expenditure**

The total net provision made for the Department amounted to Rs. 105.95 million and out of that Rs. 100.30 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision had been Rs. 5.65 million or 5.33 per cent. Details appear below.

Expenditure	As at 31 December 2016			Savings as a Percentage of Net Provisions
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	72.80	67.28	5.52	7.58
Capital	33.15	33.02	0.13	0.39

<b>Total</b>	<b>105.95</b>	<b>100.30</b>	<b>5.65</b>	<b>5.33</b>
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**(b) Utilization of Provisions made available by other Ministries and Departments**

Provisions amounted to Rs. 163,383,508 had been made available by other Ministries and Departments for various activities to the Department and out of that provision a sum of Rs. 163,265,361 had been utilized. Accordingly a sum of Rs. 118,147 out of the provision granted by the Ministries and Departments or 0.07 per cent from the provision made available had been saved.

**2.2 Advances to Public Officers Account**

**Limits Authorized by Parliament**

The limits authorized by Parliament for the Advances to Public Officers Account Item No. 30301 of the Department and the actuals are given below.

<b>Expenditure</b>		<b>Receipts</b>		<b>Debit Balance</b>	
<b>Maximum Limit</b>	<b>Actual</b>	<b>Minimum Limit</b>	<b>Actual</b>	<b>Maximum Limit</b>	<b>Actual</b>
<b>Rs. Millions</b>	<b>Rs. Millions</b>	<b>Rs. Millions</b>	<b>Rs. Millions</b>	<b>Rs. Millions</b>	<b>Rs. Millions</b>
5.50	5.47	3.00	3.38	25.00	13.38

**2.3 General Deposit Accounts**

The total of the balances of 05 General Deposit Accounts under the Department as at 31 December 2016 amounted to Rs. 10.25 million. Details appear below.

<b>Account No.</b>	<b>Balance as at 31 December 2016</b>
	<b>Rs. Millions</b>
6000/0000/00/0001/0124/000	2.66
6000/0000/00/0002/0174/000	0.13
6000/0000/00/0013/0132/000	2.64
6000/0000/00/0016/0121/000	1.19
6000/0000/00/0017/0031/000	3.63
<b>Total</b>	<b>10.25</b>

## **2.4 Audit Observation**

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The Appropriation Account and the Reconciliation Statements of the Department of Textile Industries for the year ended 31 December 2016 had been prepared satisfactorily subject to the Audit Observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in the Management Audit Report appear in paragraph 3.

## **3. Material and Significant Audit Observations**

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### **3.1 Non - maintenance of Registers and Books**

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The Register of Liabilities had not been properly maintained and updated by the Department in terms of Financial Regulation 214 .

### **3.2 Good Governance and Accountability**

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#### **3.2.1 Annual Procurement Plan**

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In terms of Guidelines 4.2.1 (b), (c), and 4.2.2 (a) of the Government Procurement Guidelines, the procurement entity should prepare a Master Procurement Plan including the procurement activities envisaged at least for a period of 03 years and the procurement activities for the immediately succeeding year should be prepared in detail and the procurement time schedules should also be prepared, the Department had not prepared the Procurement Plan accordingly.

#### **3.2.2 Internal Audit**

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A sufficient internal audit had not been carried out in respect of the activities of the Department in terms of the Department of Management Audit Circular No. DMA/ 2009 (1) of 09 June 2009.

#### **3.2.3 Audit and Management Committee**

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This Committee is not being functioned in the Department and attending for the Audit and Management Committee held by the Ministry had been followed.

### 3.3 Assets Management

#### (a) Idle and Underutilized Assets

It was observed during the course of audit examinations that the assets as shown below had remained either idle or underutilized.

- (i) The Hiramadagama Textile Industry Training School situated at Kahawatta had remained inoperative even from the year 2011.
- (ii) A vehicle owned by the Department had remained in idle and another vehicle had been underutilized from the year 2013 and even though these vehicles were handed over to the Ministry, had not been auctioned even by the June 2017.
- (iii) The land and buildings situated at the Natural Colouring Centre in Rajagiriya where there was not even a road to enter to the land had not been used for more than 05 years. Similarly, a deed for this land or the documents to prove the alienation of that to the Department had not been available. Further, a construction had also been carried out by spending a sum of Rs. 208,620 in the year 2017 for this Centre.

#### (b) Unsettled Liabilities

The unsettled liabilities of the Department that remained outstanding for the period less than 01 year as at the 31 December 2016 was Rs. 511,916.

### 3.4 Non - compliances

#### Non - compliance with Laws, Rules and Regulations

Instances of non- compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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(a) Financial Regulation 1646 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Although the daily running charts of the pool vehicles should be submitted to the Auditor General before the date of 15 <sup>th</sup> of the following month, actions had not been taken according to that.
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(b) Public Accounts Circular  
No. SA /AS/ AA/ of 12 July 2013

The function of valuation of all the lands and buildings and other assets belonging to the Department had not been completed even by the year under review.

### 3.5 Performance

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The observations on the progress on the Department according to the Annual Budget estimated and the Action Plan for the year 2016 are given below.

#### (a) Enrollment of Students for the training schools of Textile Industry

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Textile Industry Training Schools had been established in various regions of the island and trainings had been provided annually with the objective of providing fully-fledged knowledge and training in respect of handloom textile industry and creating managers, instructors and entrepreneurs required for the industry on free of charge. Even though according to the Action Plan, it had been planned to enroll 175 students for the one year course on Textile Industry Training ( 02 July 2015 to 31 July 2016 ) only 161 students had been enrolled therefore. The number of students who had completed the Course out of that were only 135.

#### (b) Enrollment of Students for the training schools of Designing

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With the objective of directing the producers towards the innovative and competitive textile products in the field of handloom textiles to capture the local and foreign market in a manner to suit the local identity and culture, one year residential course in embroidery making is being conducted for the embroider makers by the Embroidery Training Schools at Getambe and Katubedda. Even though it had been targeted to enroll 25 students for the academic year from 18 January 2016 to 17 January 2017 , only 20 students had been enrolled and out of that only 19 number of students had completed the Course .

#### (c) Conducting of Personality Development Programmes

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Three hundred twenty eight students to the Textile Industry Training Schools for the academic years 2015/2016 and 2016/2017 as twenty students were enrolled to the Embroidery training schools for the academic year 2016. Only 03 Personality Development Workshops had been conducted for the enrolled students in that manner and only 144 students had involved therefor .

#### (d) National Handloom Textile Exhibition

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With a view to promoting sales of the entrepreneurs of the textile industry, the National Handloom Textile Exhibition which was being conducted once in a year had been organized in the Bandaranayke Memorial International conference Hall premises from 09th to 11th December 2016 . Sales facilities had been granted only for 35 entrepreneurs and a sum of Rs. 8,893,521

had been spent for offering gifts for the award winners , booking of the hall, exhibit the creations and advertising.

**(e) Trade fair**

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The trade fair for the sales promotion of the small and medium-sized industrialists had been held at Bandaranayke Memorial International conference Hall premises during three days for from 25 to 27 March 2016. Trade facilities had been provided for 34 entrepreneurs in that connection. A sum of Rs. 2,314,058 had been spent for the booking of halls, making up of stalls and advertising of sales therefor.

**(f) Achievement of Objectives**

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The activities such as making of policies for the development of handloom textile industry , introducing new technology to the field of textile industry and related development activities, and researches required for the development of handloom textile industry, experiments and preservative procedures had not been carried out during the year under review.

**3.6 Irregular Transactions**

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Certain transactions entered in to by the Department had been devoid of irregularity. Several such instances observed are given below.

**(a) Repair of Textile School in Thalawa**

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A sum of Rs. 1,776,062 had been spent during the year under review for the repair of the Textile School in Thalawa. The following observations are made in this regard.

- (i) It had not been revealed according to the bid document as the sealed quotations had been obtained from the bidders besides the quotation received from the selected bidder and the details in respect of that bidder had not been available in the file.
- (ii) Even though it had been agreed to pay 75 per cent to the contractor from the gross value of the works completed, more than 50 per cent from the estimated value based on a certificate issued by the technical officer in terms of Sub – section 8 (a) of the agreement entered into on 16 August 2016, the value of the works done by the 18 October 2016 was Rs. 907,870 and that total value had been paid.
- (iii) Afterwards the certification as that work had been completed in satisfactorily manner in terms of Sub- section 8 (b) of the above mentioned agreement although it had been mentioned as a 5 per cent from the agreed contract amount for 06 months period as a security bond the retention amounted to Rs. 43,409 had been released on 22 March 2017 or approximately 04 months period.

**(b) Non- compliance with Procurement Guidelines**

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The constructions and repairs carried out in 08 instances during the year under review had not been included in the Revised Procurement Plan and the value of them were Rs. 2,499,299

**3.7 Transactions in contentious Nature**

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**Payment of compensation**

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The payment of compensation to the employees who had worked less than 10 years period in power loom textile industries belonging to the Textile Department privatized in the years of 1980, 1981 and 1982 had been commenced in the year 2013 and according to the information received to the audit compensation amounted to Rs. 45,834,000 should have been granted for 445 compensation recipients by the end of the year under review. In addition to that compensation cheques issued from the year 2013 which had lapsed 06 months period had been credited to the General Deposits Account and a balance of Rs. 3,630,543 had been remained in General Deposits Account by the end of the year under review.

**3.8 Management Weaknesses**

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Following deficiencies were observed at the audit test checks.

Power loom textile industries belonged to the Department of Textile Industries had been transferred to the private sector on long term lease basis. The following observations are made in this connection.

(a) The Department had not taken action according to the following provisions referred to in the Circular No. SEI/ A/ 4/ 34 dated 21 July 1995 of the Presidential Secretariat Titled Guidelines on the Transfer of Government Lands.

(i) According to the Paragraph 8 (d) of the Circular, it had been stated that the Lease Agreement will automatically become abolished in case of default of the lease rent whereas action had not been taken accordingly in respect of the Textile Factory at Yatinuwara .

(ii) Even though the Lessor should regularly renew the Lease Agreement and collect the lease rent without allowing to accumulate the arrears in terms of the Paragraph 9 of the Circular it had not been so done in respect of the Textile Factories at Yatinuwara, Thalatuoya and Udunuwara and the arrears of lease rent was Rs. 7,396,000 .

(b) As business activities had not been carried out in the Nim Ham Institution at Bibila which had been leased out from 01 January 1996 at an annual lease rent of Rs. 150,000 the land and the buildings had been taken over by the Department on 04 August 2011 and that property had been handed over to the Divisional Secretariat on that day itself. However it

had not been able to recover the lease rent amounting to Rs. 1,681,250 due from the Lessee even by the 31 August 2017.

- (c) The land of which the Hingurakkgodā Power loom Factory was situated and the building had been leased out on 31 January 1993 at an annual lease of Rs. 108,000 and though the lessee had defaulted lease rent, it had been handed over to the Divisional Secretariat on 12 February 2001 and it had been impossible to recover the arrears amounting to Rs. 529,600 due from the relevant lessee to the Department even by the 31 August 2017.
- (d) According to the judgment of the case filed in order to recover the amount due from the buyer of the Kuruwita Power loom Factory, out of a sum of Rs. 1,355,079 had to be recovered as the fine interest relating to the spare parts a sum of Rs. 225,846 had further remained receivable could not be able to recover even by 31 August 2017.
- (e) The Power loom Factory at Yatinuwara had been leased out on an annual lease rent of Rs. 212,000 on 14 July 1995 under the thirty years lease basis. As the encroachers were residing in a part of this land, and the Department had not taken any action to handover the free and peaceful tenure of the land to the lessee by settling the said issue, it had not been possible to recover lease amounting to Rs. 2,756,000 remained receivable from the date of lease of the property up to the year 2012 which could not be able to recover even by the 31 August 2017.
- (f) The Power loom Factory at Thalathuoya had been leased out on an annual lease rent of Rs. 148,000 on 01 December 2000 under the thirty years lease basis. The lessee had paid a sum of Rs. 1,184,000 only for the period of 08 years from the year 2000 to 2004 and 2013 to 2016. The lease rent of Rs. 1,184,000 relating to the period of 08 years from 2005 to 2012 was impossible to be recovered .
- (g) Even though the Power loom Factory at Udunuwara had been leased out on an annual lease rent of Rs. 216,000 on 01 February 2000 under the thirty years lease basis the lessee had abandoned this place without carrying out business activities and it had not been possible to recover the lease rent of Rs. 3,456,000 as at 01 February 2016 due from the lessee by the 31 August 2017.
- (h) A case had been filed in order to recover a sum of Rs. 2,694,443 due for the spare parts of the machinery of the Kalutara Power loom Industry. Even though according to the judgment delivered on 22 April 1992, those amount had to be settled in 36 installments, the installments had not been recovered by fixed amount and only Rs. 702,480 had been recovered from time to time by the year 1999. A sum Rs. 1,991,962 had remained outstanding even by the end of the year under review and instructions of the Attorney General had been sought to recover that amount. As the period of the recovery of relevant money had elapsed to file cases in terms of Section 337 (1) of the Civil Procedure Code and as such the Attorney General had informed that there is no legal provisions therefor.



- (i) The Power loom Industry in Thisamaharamaya had been leased out on an annual lease rent amounted to Rs. 60,000 from 07 September 1995 under the thirty years lease basis and even though the annual lease rent had been revised up to Rs. 900,000 since the year 2016 the aforesaid amount had been impossible to recover even by the 31 August 2017 .

### 3.9 Human Resources Management

#### ----- Approved Cadre and Actual Cadre -----

The position of the cadre as at 31 December 2016 had been as follows .

	Category of Employees	Approved Cadre	Actual Cadre	Number of vacancies
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(i)	Senior Level	05	03	02
(ii)	Tertiary Level	01	-	01
(iii)	Secondary Level	109	83	26
(iv)	Primary Level	42	34	08
	<b>Total</b>	<b>157</b>	<b>120</b>	<b>37</b>
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- (a) Thirty seven vacancies were remained by the end of the year under review and 07 vacancies out of that were the vacancies which could not be able to recruit due to abolishment of the posts. The department had failed to fill the remained vacancies
- (b) The post of Deputy/ Assistant Director ( Development ) from the 04 September 2007 and the post of Administrative Officer from the 14 November 2008 remained in vacant and to enroll the officers for those had been failed even by the end of the year under review.